DELMARVA POWER & LIGHT COMPANY

BEFORE THE
DELAWARE PUBLIC SERVICE COMMISSION
REBUTTAL TESTIMONY OF ROBERT B. HEVERT
DOCKET NO. 13-115

I. Introduction

Q1. Please state your name, affiliation, and business address.

A1. My name is Robert B. Hevert. I am Managing Partner of Sussex Economic Advisors, LLC (Sussex). My business address is 161 Worcester Road, Suite 503, Framingham, MA 01701.

Q2. Are you the same Robert B. Hevert who submitted Direct Testimony in this proceeding?

A2. Yes. I filed Direct Testimony on behalf of Delmarva Power & Light Company (Delmarva or the Company), a wholly-owned operating subsidiary of Pepco Holdings, Inc. (PHI), in this proceeding on March 22, 2013.

Q3. What is the purpose of your Rebuttal Testimony?

A3. The purpose of my Rebuttal Testimony is to respond to the Direct Testimony of Mr. David Parcell on behalf of the Delaware Division of Public Advocate (DPA).[1]

Q4. Please briefly summarize the analyses contained in your Rebuttal Testimony.

A4. I applied the Constant Growth Discounted Cash Flow (DCF) model (*see also*, Schedule (RBH-R)-1), the Capital Asset Pricing Model (CAPM) (*see also*, Schedule

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[1] I note that while Commission Staff (Staff) of the Delaware Public Service Commission (Commission) does not provide its own analysis of the Cost of Equity for Delmarva, Staff Witness Peterson states, "Mr. Parcell was the Staff witness on rate of return and overall capital structure in the prior Delmarva electric base case, PSC Docket 11-528, as well as the Staff witness on rate of return in the more recent Delmarva gas case, PSC Docket 12-546, that is currently pending before the Commission. I have been asked by Staff to rely on Mr. Parcell's return recommendations in determining my over all recommended revenue requirement in this case." *See* Direct Testimony of Staff Witness Peterson, at 5.

(RBH-R)-4) and the Risk Premium approach (as discussed in my Direct Testimony, *see also*, Schedule (RBH-R)-5) based on data through July 31, 2013. In response to DPA Witness Parcell, my Rebuttal Testimony also includes a Multi-Stage form of the DCF model (*see*, Schedule (RBH-R)-7). I applied those analyses to the proxy group included in my Direct Testimony.

Q5. Have you revised your ROE recommendation based on those results?

A5. Yes, I have. The updated results presented in my Rebuttal Testimony support an ROE between 10.25% and 10.75%, with the Company's proposed 10.25% ROE at the low end of that range. Although I have adjusted the high end of my recommended range from 11.00% to 10.75% to reflect certain changes in the results of my updated analyses relative to those presented in my Direct Testimony, I have not changed my position that the Company's proposed ROE of 10.25% is reasonable. As discussed in more detail below, recent changes in current and expected market conditions would suggest an increase, not a decrease, in the Cost of Equity; in fact, that is what certain model results indicate. That said, I recognize that other model results have decreased since I filed my Direct Testimony. And, while those lower results are inconsistent with observable measures of increased capital costs, I believe that it is reasonable to reflect the lower results, at least to some extent, in my recommendation. As such, while I have lowered the high end of my recommended range, it remains my view that the Company's proposed ROE of 10.25% is a reasonable, if not conservative estimate of its Cost of Equity.

Q6. Have you prepared any Rebuttal Schedules?

A6. Yes. Schedule (RBH-R)-1 through Schedule (RBH-R)-11 have been prepared

by me or under my direct supervision.

II. Summary and Overview

Q7. Please summarize the key issues and recommendations addressed in your Rebuttal Testimony.

A7. In my Direct Testimony, I found that an ROE of 10.50% is reasonable for the Delmarva, based on a range of ROE estimates of 10.25% to 11.00%.[2] The Company has proposed an ROE of 10.25%, which falls at the low end of my recommended range. As discussed above, my updated recommended range is from 10.25% to 10.75%. The updated analyses presented in my Rebuttal Testimony continue to support the position that the Company's proposed ROE of 10.25% is a reasonable, if not conservative estimate of its Cost of Equity (especially in light of current capital market conditions, as discussed in further detail below). As my Direct Testimony discussed, my recommendation, and the analytical results on which it is based, considers a variety of factors including the specific risks faced by Delmarva and existing and expected capital market conditions.[3] That is especially important when conditions have changed significantly over an abbreviated period, as recently has been the case. For the reasons discussed throughout my Rebuttal Testimony, those factors support my conclusion that the Company's proposed 10.25% ROE is reasonable, if not conservative.

Regarding DPA Witness Parcell's analyses and recommendation, there are several reasons why I believe his recommended ROE is too low to be a reasonable

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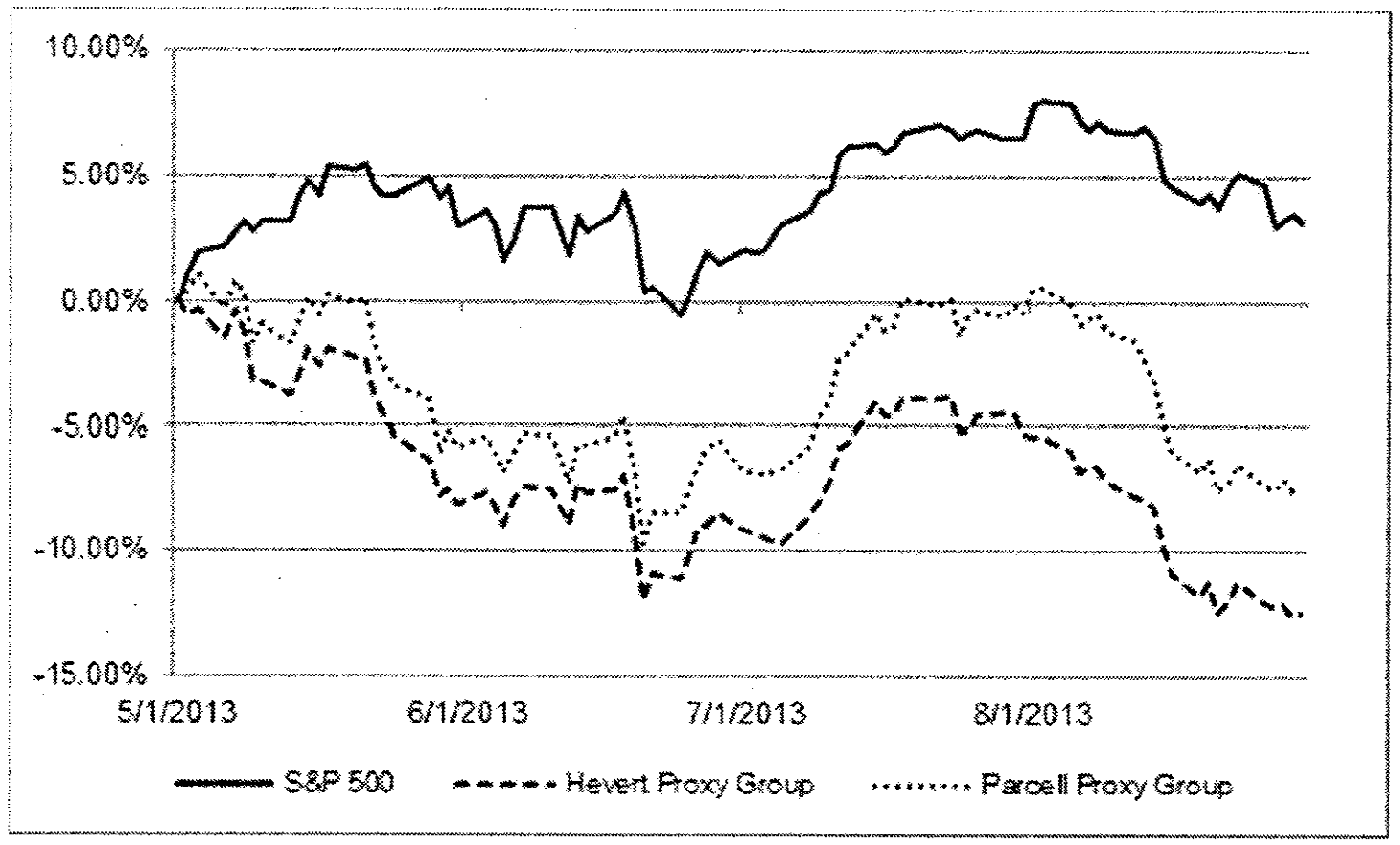
2 *See* Direct Testimony of Robert B. Hevert, at 32.
3 *Ibid.*, at 3, 10.

estimate of the Company's Cost of Equity. Many of those reasons are methodological in nature and are discussed in detail throughout the balance of my Rebuttal Testimony. In general, DPA Witness Parcell's results and recommendations are biased downward as a result of inappropriate growth rates used in his Constant Growth DCF analyses, estimates of the Market Risk Premium that are so low as to produce CAPM results that have little relevance in estimating the Company's ROE, and a level of subjectivity in the Comparable Earnings Method that enables a range of results that are disconnected from, and inconsistent with other data provided in his testimony. Beyond those analytical issues, DPA Witness Parcell's recommendation does not reasonably reflect the continuing and significant changes in capital markets that together point to an increase, rather than a decrease, in the Company's Cost of Equity.

Q8. Please now expand on your observations regarding capital market conditions, and their effect on the methods used to estimate the Cost of Equity.

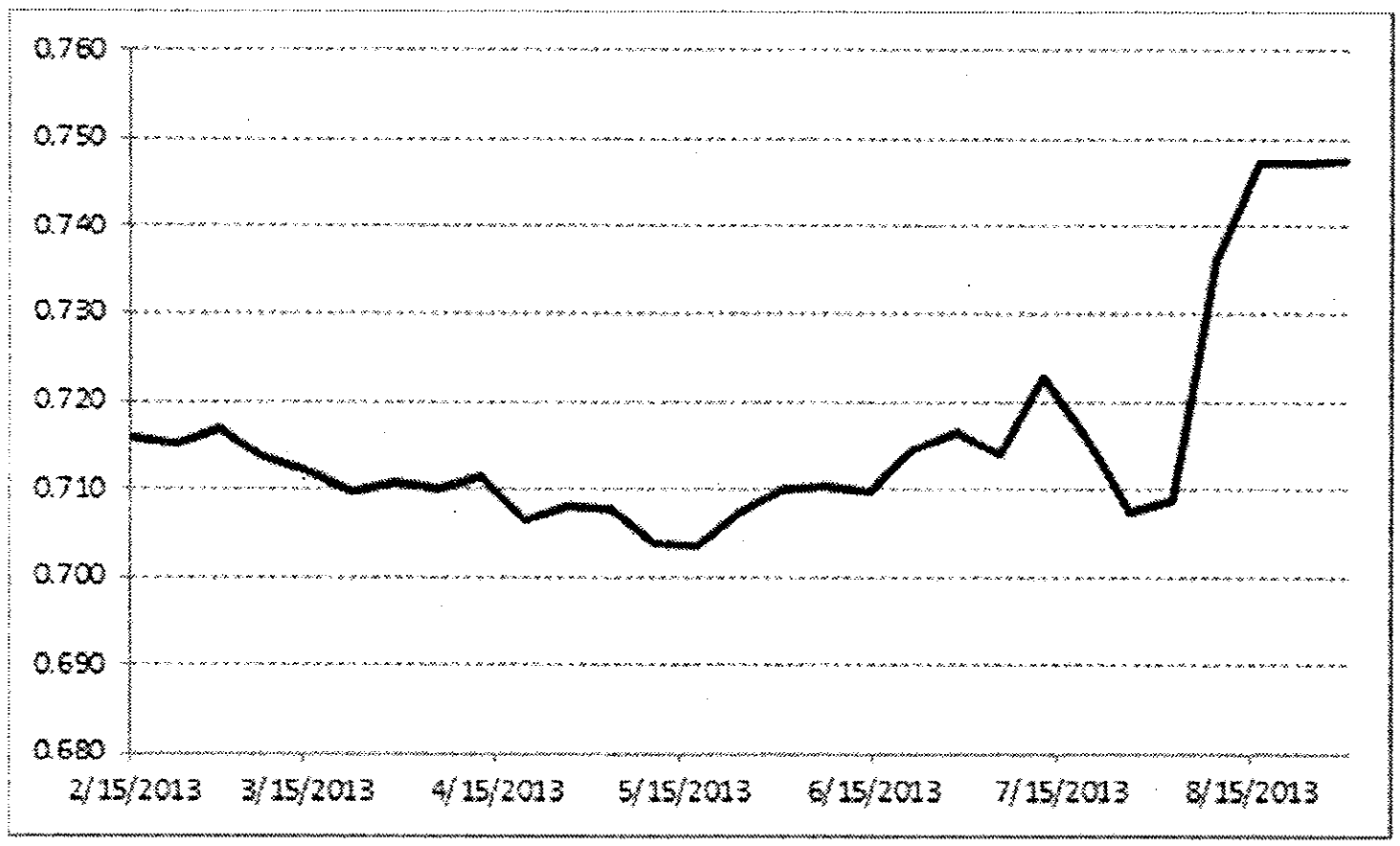
A8. There is little question that since February 15, 2013 (*i.e.*, the date of the analyses included in my Direct Testimony), both current and forward interest rates increased. As Chart 1 (below) demonstrates, the Treasury yield curve has shifted upward, with longer-term maturities experiencing the greater increases. On a spot basis, the 30-year Treasury yield rose by 52 basis points from February 15, 2013 through August 30, 2013. In fact, since November 2012 (that is, the date of the Company's most recent ROE authorization in Docket No. 11-528), the 30-year Treasury yield has increased by 91 basis points. As Chart 1 also demonstrates, interest rates have increased significantly since the beginning of May 2013.

Chart 3: Stock Price Performance May 1, 2013 – August 30, 2013



The average Beta coefficient for my proxy group has also increased recently. While it was relatively stable between February 15, 2013 and early August 2013, it has increased rapidly since then (*see* Chart 4, below). Those findings indicate that the proxy group's risk relative to the broad market has measurably increased over the past several weeks.

Chart 4: Average Beta Coefficient[7]



Q9. Is it your position that the period from May 1, 2013 through August 30, 2013 should be used to exclusively to determine the Company's ROE?

A9. No, it is not. In fact, the data underlying my analyses reflect the 30-, 90-, and 180-day period ended July 31, 2013.[8] Nonetheless, I do believe that the consistent and concurrent increases in current and forward Treasury yields, together with the proxy companies' significant under-performance and increased risk relative to the overall market are important considerations in arriving at ROE recommendations. In essence, over the past several months we have seen: (1) steady and significant increases in both current and forward long-term Treasury yields; (2) the under-performance of utility stocks relative to the broad market; and (3) an increase in the relative risk of utility stocks (as measured by the proxy companies). In my view, those are important factors to be considered in assessing the Company's Cost of

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7 Source: Bloomberg Professional Service

8 I updated my analyses through July 31, 2013 to be consistent with the analyses presented in the Direct Testimony of DPA Witness Parcell.

Equity.

Q10. Have you considered any additional data to assess the effect of changing market conditions on your analyses?

A10. Yes, I have. As discussed in my Direct Testimony, it is important to assess model results in the context of prevailing market conditions. As noted above, for example, over the past several months both current and forward interest rates have significantly increased; that increase has been particularly acute since May 2013. As would be expected, as interest rates increased, the proxy group companies' stock value significantly decreased. As noted earlier, from May through August the 30-year Treasury yield increased from 2.83 percent to 3.70 percent. At the same time, the proxy group stock value fell both in absolute terms and relative to the broader market (*see* Chart 3, above).

Those findings are not at all surprising. As interest rates increase, we would expect to see a decline in prices for utilities such as Delmarva, suggesting an increase in the Cost of Equity. That is, we would expect the increase in interest rates to correspond to an increase in the Cost of Equity. In fact, that is what we have found in the CAPM and Risk Premium methods; the increase in long-term interest rates indicates an increase in the Cost of Equity under both models. That relationship makes sense, both intuitively and methodologically, and such results reinforce my recommendation of the Company's Cost of Equity.

As to other market data, it also is important to recognize that the policy of reducing asset purchases under the Federal Reserve's Quantitative Easing program is related to expectations of improved and sustained growth in the overall economy.

Since any tapering of asset purchases is tied to improving economic growth, we would expect to see higher growth estimates for companies in the overall economy, including the utility sector. That certainly appears to be the case for the broad market; the expected market return has increased by 29 basis points since I filed my Direct Testimony, largely due to increased expected growth rates.[9] Regarding the utility sector in particular, since companies such as Delmarva continue to invest in their rate base, and given that utilities provide a vital service to other industry sectors, it also would not be surprising to see an increase in expected utility growth rates.

In the context of the Constant Growth DCF model, therefore, current and expected market conditions easily could argue for increased growth rates and dividend yields. Taking those two elements together, we would expect an increase in the Cost of Equity. Contrary to intuition and observable, prevailing market conditions, however, decreases in the Constant Growth DCF results have not followed this trend as both the average dividend yield and projected growth rate for my proxy group have fallen since the filing of my Direct Testimony. As such, the Constant Growth DCF results are difficult to reconcile with current market conditions, in particular the significant increase in interest rates, and should be viewed with caution. It is for precisely this type of circumstance that it is important to apply more than one analytical approach in estimating the Cost of Equity, as I previously have indicated.[10] In my Direct Testimony, I applied the Constant Growth DCF model, the CAPM, and Risk Premium approach in arriving at my

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9 *See* Schedule (RBH)-2 and Schedule (RBH-R)-2. Based on the Bloomberg estimate of the total market return, the expected market return increased from 13.00% to 13.29% between February 15, 2013 and July 31, 2013.

10 *See* Direct Testimony Robert B. Hevert, at 3.

recommendation.[11] Based on the updated analytical results contained in my Rebuttal Testimony, and the counterintuitive trends produced by the Constant Growth DCF model, greater consideration should be given to analytical approaches that are consistent with observable, prevailing capital market conditions.

My updated DCF, CAPM and Bond Yield Plus Risk Premium analyses are presented in Schedules (RBH-R)-1 through 5.

Q11. In light of that data, what are your principal conclusions regarding DPA Witness Parcell's ROE recommendation?

A11. From an analytical perspective, it is important that the inputs and assumptions used to arrive at an ROE recommendation are consistent with the recommendation itself. While I appreciate that every analysis necessarily requires an element of judgment, the application of that judgment must be made in the context of the quantitative and qualitative information available to the analyst. Because the application of financial models and interpretation of their results often is the subject of differences among analysts in regulatory proceedings, I believe that it is important to review and consider a variety of data points; doing so enables us to put in context both quantitative analyses and the associated recommendations.

As noted in my Direct Testimony, it is important to recognize that in establishing their return requirements, investors consider a broad range of data including authorized returns from alternative jurisdictions, and current capital market data.[12] Equity investors have many options available to them, and will allocate capital based on the expected returns associated with those alternatives. While I am not

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[11] *Ibid.*

[12] *Ibid.*, at 10, 21-22.

suggesting that the Commission should be bound by decisions in other regulatory jurisdictions, given that investors consider such data in framing their investment decisions, return recommendations that materially deviate from observed industry norms should be supported by clear and unambiguous reasons explaining those deviations.

III. Response to Direct Testimony of DPA Witness Parcell

Q12. Please provide a brief summary of DPA Witness Parcell's Direct Testimony and recommendations.

A12. DPA Witness Parcell estimates the Company's Cost of Equity based on: (1) the Constant Growth DCF model; (2) the CAPM; and (3) the Comparable Earnings Model (CEM). DPA Witness Parcell excludes his CAPM results, which range from 6.90% to 7.00%, and defines his ROE range of 9.20% to 9.50% by reference to the mid-point of his respective DCF and CEM results.[13] DPA Witness Parcell's 9.35% recommendation, then, is the midpoint of his 9.20% to 9.50% range.

Q13. As a preliminary matter, do you believe that DPA Witness Parcell's recommended range is reasonable?

A13. No, I do not. Putting aside the analytical issues discussed below, I note that the low end of DPA Witness Parcell's range, 9.20%, and the high end, 9.50%, are the simple average of two sets of data points (*see* Table 1, below).

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13 *See* Direct Testimony of DPA Witness Parcell, at 33.

Table 1: Summary of DPA Witness Parcell's ROE Range[14]

Method	*Low Estimate*	*High Estimate*	*Mid-Point*
Discounted Cash Flow	9.00%	9.40%	9.20%
Comparable Earnings	9.00%	10.00%	9.50%
Overall Average	9.35%		

DPA Witness Parcell's recommended range therefore gives equal weight to all four estimates assuming, for example, that an ROE of 9.00% is equally as plausible as an ROE of 10.00%. An authorized ROE of 9.00%, however, would be below 99.86% of the 1,410 ROE authorizations observed since 1980.[15] Those estimates are also inconsistent with recent market conditions. While I recognize that the analyses provided in Section II (above) include data subsequent to DPA Witness Parcell filing his Direct Testimony, current market conditions highlight the unreasonableness of an ROE estimate as low as 9.00%. Simply removing those estimates and giving equal weight to the remaining two estimates would increase the point estimate to 9.70% (that is, the average of 9.40% and 10.00%).

As discussed in more detail later in this section of my Rebuttal Testimony, DPA Witness Parcell's CEM analysis, and the conclusions that he derives from that analysis, rely substantially on his subjective assessment as to the relationship between Market-to-Book Value (M/B) ratios and the earned Return on Common Equity. Equally important, DPA Witness Parcell's analyses and conclusions are heavily dependent on his sense of what may (or may not) be an appropriate Market-to-Book

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14 *Ibid.*

15 An ROE of 9.00% would be the second lowest authorized ROE over that period. Source: Regulatory Research Associates.

ratio for a company such as Delmarva. Given the highly subjective nature of that approach, there are a range of plausible results. For example (as also discussed in more detail below) based on the data provided by DPA Witness Parcell, a M/B ratio of approximately 150.00% would be associated with the 10.25% lower bound of my recommended range.[16] That ratio (*i.e.,* 150.00%) falls in the 52nd percentile of the ratios presented in DPA Witness Parcell's Exhibit DCP-10. Taken from that perspective, the Company's 10.25% ROE recommendation is quite consistent with the data on which DPA Witness Parcell relies.

Q14. What are the specific areas in which you disagree with DPA Witness Parcell's analyses and recommendations?

A14. The principal areas in which I disagree with DPA Witness Parcell's analyses include: (1) the effect of current market conditions on Delmarva's Cost of Equity; (2) the growth rates used in the Constant Growth DCF analysis; (3) the application of the CAPM; and (4) DPA Witness Parcell's application of the Comparable Earnings Method.

Capital Market Conditions

Q15. Please briefly summarize the financial and economic conditions that DPA Witness Parcell discusses in his Direct Testimony.

A15. DPA Witness Parcell refers to comparatively low levels of inflation (as measured by the Consumer Price Index) which, he asserts, are "reflective of lower capital costs",[17] and historically low Treasury and utility bond yields; DPA Witness

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16 *See* Table 3. 150.00% is the approximate average of 147.00% and 154.00%.

17 Direct Testimony of DPA Witness Parcell, at 12.

Parcell, attributes those comparatively low rates to a "flight to safety."[18] DPA Witness Parcell further notes that the "flight to safety" led to a "negative perception" of the recent market which resulted in the reduced valuation of "retirement accounts, investment portfolios, and other assets."[19] DPA Witness Parcell suggests that this has caused "a decline in investor expectations of returns."[20]

Q16. What is your response to DPA Witness Parcell on these issues?

A16. As to his review of interest rates, DPA Witness Parcell refers to page 4 of his Exhibit DCP-2. There, the most recent data relates to July, 2013. As noted earlier in my Rebuttal Testimony, interest rates have increased rather substantially since May 1, 2013. In fact, since July 31, 2013, interest rates have increased significantly as well. To that point, while DPA Witness Parcell's Exhibit DCP-6 shows the ten-year Treasury yield was 2.58% in July, by September 6, 2013 it had risen to 2.94%. Utility bond yields experienced a similar increase; the Moody's Utility Baa Bond index increased from 5.21% (as reported by DPA Witness Parcell) to 5.37% between July and September 6, 2013. In my view, the accelerated increase in interest rates since May 1, 2013 (and, for that matter, since DPA Witness Parcell filed his Direct Testimony) are not necessarily indicative of a continuing flight to safety, and should be considered in determining the Company's Cost of Equity

As to the issue of market performance, as noted above the broad market increased by over three percentage points over the four months from May through August 30, 2013. During the same period utility stocks (as measured by our

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18 *Ibid.*, at 14.
19 *Ibid.*
20 *Ibid.*

respective proxy groups) significantly under-performed the broad market. That is, financial assets that reflect the broad market have increased in value; utility stocks have not enjoyed the same performance. Whether the utility sector's under-performance is due to the rapid increase in interest rates, or the rotation by investors out of utility stocks into other sectors (or both), it is important to consider recent market data and the implications of that data in arriving at ROE recommendations.

DCF Growth Rates

Q17. Please summarize the growth rates that DPA Witness Parcell relies on in his Constant Growth DCF analysis.

A17. DPA Witness Parcell considers five measures of growth: (1) historical, five year average earnings retention growth rates from Value Line for 2008-2012; (2) five-year average historical growth in Earnings Per Share (EPS), Dividends Per Share (DPS) and Book Value Per Share (BVPS) from Value Line; (3) projected earnings retention growth for 2013, 2014 and 2016-2018 from Value Line; (4) projected EPS, DPS and BVPS growth rates from Value Line for years 2010-2012 to 2016-2018; and (5) five-year projections of EPS growth as reported by First Call.[21]

Q18. Please summarize the differences between you and DPA Witness Parcell in the selection of growth rates in your respective Constant Growth DCF analyses.

A18. As discussed throughout my Direct and Rebuttal Testimonies, it is my view that analysts' earnings projections are the relevant measure of growth. DPA Witness Parcell's analysis, on the other hand, includes both historical and projected growth in DPS, BVPS, and EPS, as well as historical and projected measures of Sustainable

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[21] *Ibid.*, at 23.

Growth. For the reasons discussed below, I disagree with DPA Witness Parcell's use of historical data, and with his use of projected DPS, BVPS, and Sustainable Growth rates.

Q19. Why do you disagree with DPA Witness Parcell's position that dividend or book value growth rates are appropriate inputs to the Constant Growth DCF model?

A19. As explained in my Direct Testimony, over the long term, dividend growth can only be sustained by earnings growth.[22] The use of earnings growth estimates is also supported by the fundamental assumptions underlying the Constant Growth DCF model, which state that earnings, dividends and stock prices all grow at the same rate, and that the payout, Market-to-Book, and Price/Earnings (P/E) ratios all remain constant, in perpetuity. Under those assumptions, the Constant Growth DCF model produces the same result whether the stock is held in perpetuity or sold after an assumed holding period (*see* Schedule (RBH-R)-8). Given that investors tend to value common equity on the basis of P/E ratios, the expected (and required) Return on Equity is a function of the long-term growth in earnings, not dividends or book value.

I also note that Value Line is the only service noted in DPA Witness Parcell's Direct Testimony that provides DPS, or BVPS growth projections. While services such as Zacks and First Call survey multiple analysts to arrive at their consensus growth estimates, Value Line projections reflect the view of a single analyst. Because they reflect multiple perspectives, consensus estimates are less likely to be biased in one direction or another than a projection that reflects the views of a single

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[22] *See* Direct Testimony of Robert B. Hevert, at 13.

analyst. It is for that reason that one of the criteria used to develop my proxy group is that the subject company must be followed by at least two utility industry equity analysts.[23]

Q20. Does DPA Witness Parcell have any concerns with specific growth rates of companies in your proxy group?

A20. Yes. DPA Witness Parcell states that the EPS growth rates from Value Line for Otter Tail Power (OTTR) and PNM Resources (PNM) as of August 2, 2013 of 21.50% and 12.00%, respectively, are "outliers and are not sustainable."[24]

Q21. What is your response to DPA Witness Parcell on that point?

A21. First, as discussed in my Direct Testimony, I agree that it may be necessary to consider the reasonableness of growth rates used in the DCF model. It is for that reason that I removed the Value Line growth rate for OTTR from the Constant Growth DCF analysis included in my Direct Testimony. Specifically, because the OTTR (Value Line) growth rate was more than two standard deviations from the unadjusted mean growth rate, I removed it from the analysis.[25] Based on the same two standard deviation criterion, I have done the same in developing the updated results presented in my Rebuttal Testimony.[26] Consequently, the assessment of Average and Median DCF results presented on page 40 of DPA Witness Parcell's testimony does not reflect the approach in either my Direct or Rebuttal Testimony.

My Direct Testimony also noted that "[a]n alternative, and very reasonable

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23 *Ibid.*, at 7.
24 Direct Testimony of DPA Witness Parcell, at 40.
25 *See* Direct Testimony of Robert B. Hevert, at 14.
26 Schedule (RBH-R)-1.

approach, would be to consider both mean and median results."[27] Accordingly, I presented both mean (excluding the Value Line OTTR growth rate) and median DCF results in Schedule (RBH)-1 to my Direct Testimony, as I have in my Rebuttal Testimony. Here again, while DPA Witness Parcell speaks of the difference between mean and median results, that distinction already was reflected in my Direct Testimony.

Those issues aside, my Direct Testimony noted that the assessment of outlying results may be considered for both high and low estimates.[28] While DPA Witness Parcell focuses on growth rates that he considers too high to be sustainable, he does not consider growth rates that may be too low. For example, DPA Witness Parcell's Exhibit DCP-2, Page 1 of 6 notes that over the "Current Cycle", the Consumer Price Index has been (on average) approximately 2.10 percent. Nonetheless, nine of the growth rates presented on Exhibit DCP-7, Page 4 of 4 (*i.e.*, DPA Witness Parcell's summary of "DCF Cost Rates") are 2.10 percent, or lower. That is, in developing his DCF analyses, DPA Witness Parcell included nine growth rates that suggest zero, or negative real growth. If we were to assume that investors would require at least 1.00 percent real growth to take on the risk of equity ownership, the lower limit of "sustainable" growth would be approximately 3.10 percent; 33 of DPA Witness Parcell's growth rate estimates (16 relating to his proxy group, and 17 relating to mine) are equal to or less than that threshold.

In essence, the OTTR growth rate is not at issue; I excluded that estimate in both my Direct and Rebuttal Testimonies. Similarly, DPA Witness Parcell's

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27 Direct Testimony of Robert B. Hevert, footnote 9, at 14.

28 *Ibid.*

observation that the use of medians mitigates the effect of what may be considered outlying results simply corroborates the convention that I used in reporting my results. What DPA Witness Parcell has not addressed, however, are the numerous growth rates included in his own analysis that are so low as to be unsustainable in the long-run.

Q22. Have you performed any other analyses in response to DPA Witness Parcell's concern about the sustainability of certain analyst growth rates?

A22. Yes, I have. In order to limit the effect of short-term growth rates on the DCF model, I also have included a Multi-Stage form of the DCF model. The Multi-Stage model that I have included in response to DPA Witness Parcell's analysis focuses on cash flow growth rates over three distinct stages. As with the Constant Growth form of the DCF model, the Multi-Stage form defines the Cost of Equity as the discount rate that sets the current price equal to the discounted value of future cash flows. Unlike the Constant Growth form, however, the Multi-Stage model included in my Rebuttal Testimony is solved in an iterative fashion.

As noted above, the model sets the subject company's stock price equal to the present value of future cash flows received over three "stages". In the first two stages, "cash flows" are defined as projected dividends. In the third stage, "cash flows" equal both dividends and the expected price at which the stock is sold at the end of the period (*i.e.*, the "terminal price"). I calculated the terminal price based on the Gordon model, which defines the price as the expected dividend divided by the difference between the Cost of Equity (*i.e.*, the discount rate) and the long-term expected growth rate. In essence, the terminal price is defined by the present value of

the remaining "cash flows" in perpetuity.[29] In each of the three stages, the dividend is the product of the projected Earnings Per Share, and the expected dividend payout ratio.

Q23. What are the primary analytical benefits of your three-stage model?

A23. The primary benefits relate to the flexibility provided by the model's structure. Since it provides the ability to specify near, intermediate, and long-term growth rates, for example, the model avoids the sometimes-limiting assumption that the subject company will grow at the same, constant rate in perpetuity.[30] In addition, by calculating the dividend as the product of earnings and the payout ratio, the model enables analysts to include assumptions regarding the timing and extent of changes in the payout ratio to reflect, for example, increases or decreases in expected capital spending, or a transition from current payout levels to long-term expected levels. In that regard, because the model relies on multiple sources of earnings growth projections, it is not limited to a single source, such as Value Line, for all inputs, and mitigates the potential bias associated with relying on a single source of growth estimates.[31]

The model also enables the analyst to assess the reasonableness of the inputs and results by reference to certain market-based metrics. For example, the stock price estimate can be divided by the expected Earnings Per Share in the final year to calculate an average P/E ratio. Similarly, the terminal P/E ratio can be divided by the

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29 The terminal rate equals the 5.61% expected nominal GDP growth.

30 I note that DPA Witness Parcell does not suggest that the growth rates of OTTR or PNM are incorrect; he simply questions the long-term sustainability of them. The inclusion of a Multi-Stage DCF model addresses those concerns.

31 *See*, for example, Harris and Marston, *Estimating Shareholder Risk Premia Using Analysts' Growth Forecasts*, Financial Management, 21 (Summer 1992).

terminal growth rate to develop a Price to Earnings Growth (PEG) ratio. To the extent that either the projected P/E or PEG ratios are inconsistent with historical or expected levels, it may indicate incorrect or inconsistent assumptions within the balance of the model. The results of my Multi-Stage DCF model can be found in Schedule (RBH-R)-7.

Application of the CAPM

Q24. Please summarize DPA Witness Parcell's CAPM analysis.

A24. DPA Witness Parcell's CAPM analyses rely on the three-month average yield on 20-year U.S. Treasury securities from May through July 2013 (as the measure of the risk-free rate), Value Line Beta coefficients, and three estimates of the MRP including: (1) the average difference between the earned equity return on the S&P 500 less the 20-year Treasury yield from 1978 to 2012; (2) the arithmetic average difference between the total return on the S&P 500 and the total return on long-term government bonds (20-year Treasury securities based on data from Morningstar); and (3) the geometric average difference between the total return on the S&P 500 and the total return on long-term government bonds, also based on data from Morningstar. Those inputs produce CAPM mean and median estimates of 6.90% to 7.00%, respectively.[32]

Q25. Do you agree with DPA Witness Parcell's application of the CAPM?

A25. No, I do not. In particular, I disagree with DPA Witness Parcell's assumption regarding the risk-free rate component of the model, his sole use of longer-term Beta coefficients, and his estimated MRP.

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[32] *See* Direct Testimony of DPA Witness Parcell, at 27-28.

Q26. Why is the 30-year Treasury yield the most appropriate measure of the risk-free rate component of the CAPM?

A26. The primary difference between DPA Witness Parcell's estimates of the risk-free rate and mine is the term of the assumed Treasury instrument. As noted by Morningstar, the maturity of the risk-free security should approximate the life of the underlying investment:

> The horizon of the chosen Treasury security should match the horizon of whatever is being valued. When valuing a business that is being treated as a going concern, the appropriate Treasury yield should be that of a long-term Treasury bond. Note that the horizon is a function of the investment, not the investor. If an investor plans to hold stock in a company for only five years, the yield on a five-year Treasury note would not be appropriate since the company will continue to exist beyond those five years.[33]

In essence, equity ownership represents a perpetual claim on the subject company's cash flows.[34] Since the 30-year Treasury bond is the longest duration risk-free security it is, in my view, the appropriate security for that purpose. That view is supported by academic literature. Pratt and Grabowski recommend a similar approach to selecting the risk-free rate: "In theory, when determining the risk-free rate and the matching ERP you should be matching the risk-free security and the ERP with the period in which the investment cash flows are expected."[35] To that point, a 2004 paper titled *Applying The Capital Asset Pricing Model* by Robert Harris reviews current practices for application of the CAPM and, when summarizing best current practices, concludes "[t]he risk-free rate should match the tenor of the cash flows

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33 Morningstar, Inc., 2012 Ibbotson Stocks, Bonds, Bills and Inflation Valuation Yearbook, at 44.

34 The Constant Growth DCF model, for example, reflects the perpetual nature of equity investments.

35 Shannon Pratt and Roger Gabrowski, Cost of Capital: Applications and Examples, 3rd Ed. (Hoboken, NJ: John Wiley & Sons, Inc., 2008), at 92. "ERP" is the Equity Risk Premium.

being valued."[36]

As a practical matter, equity securities represent a perpetual claim on cash flows; 30-year Treasury bonds are the longest-maturity securities available to match that perpetual claim. Moreover, the average useful life of the Company's electric utility plant in service is between approximately 8 years and over 100 years.[37] Because the Company's assets are such long-duration investments, it remains appropriate to use yields on long-term Treasury bonds as the risk-free rate component of the CAPM. [38]

Q27. Please summarize DPA Witness Parcell's critique of the *ex-ante* Market Risk Premium estimates included in your CAPM analysis.

A27. DPA Witness Parcell states that those estimates "greatly [exceed] the long-term experience (e.g., 1929 to present) of investment return differential between common stocks and government bonds."[39]

Q28. What is your response to DPA Witness Parcell on that point?

A28. As a preliminary matter, the MRP is meant to be a forward-looking parameter. As Morningstar observes:

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36 Paper cited with permission of author.

37 *See* The currently approved depreciation rates in the Company's application for "Delaware Distribution", Schedule No. 3-B, page 2 of 2.

38 In finance, "duration" (whether for bonds or equity) typically refers to the present value weighted time to receive the security's cash flows. In terms of its practical application, duration is a measure of the percentage change in the market price of a given stock in response to a change in the implied long-term return of that stock. A common investment strategy is to match the duration of investments with the term of the underlying asset in which the funds are being invested, or the term of a liability being funded. Since the term of the risk-free rate should match the life of the underlying investment, it is appropriate to consider the equity duration of the subject company when selecting the Treasury yield used as the risk-free rate in the CAPM. If the average equity duration of the proxy group is approximately 30 years, it would be appropriate to use the longer-term security as the measure of the risk-free rate. As shown in Schedule (RBH-R)-9, the average equity duration for DPA Witness Parcell's proxy group, based on his assumptions, is 28.52 years.

39 Direct Testimony of DPA Witness Parcell, at 41.

> It is important to note that the expected equity risk premium, as it is used in discount rates and cost of capital analysis, is a forward-looking concept. That is, the equity risk premium that is used in the discount rate should be reflective of what investors think the risk premium will be going forward.[40]

That is why my MRP estimates specifically rely on market-based data to estimate the *expected* Market Risk Premium. Moreover, from 1926 through 2012, the arithmetic average market return was 11.80%, or 245 basis points above DPA Witness Parcell's 9.35% estimate.[41]

Since DPA Witness Parcell concludes that the Market Risk Premium estimates used in my analyses "greatly [exceed] the long-term experience," it also is instructive to understand how often various ranges of Market Risk Premiums actually have occurred over the 1926 to 2012 period. To perform that analysis, I gathered the annual Market Risk Premia reported by Morningstar and produced a histogram of the observations. The results of that analysis, which are presented in Chart 5, demonstrate that MRPs in the range of 7.50% to 10.00% (generally the range of the MRP estimates in my Rebuttal Testimony) and higher actually occurred quite often.

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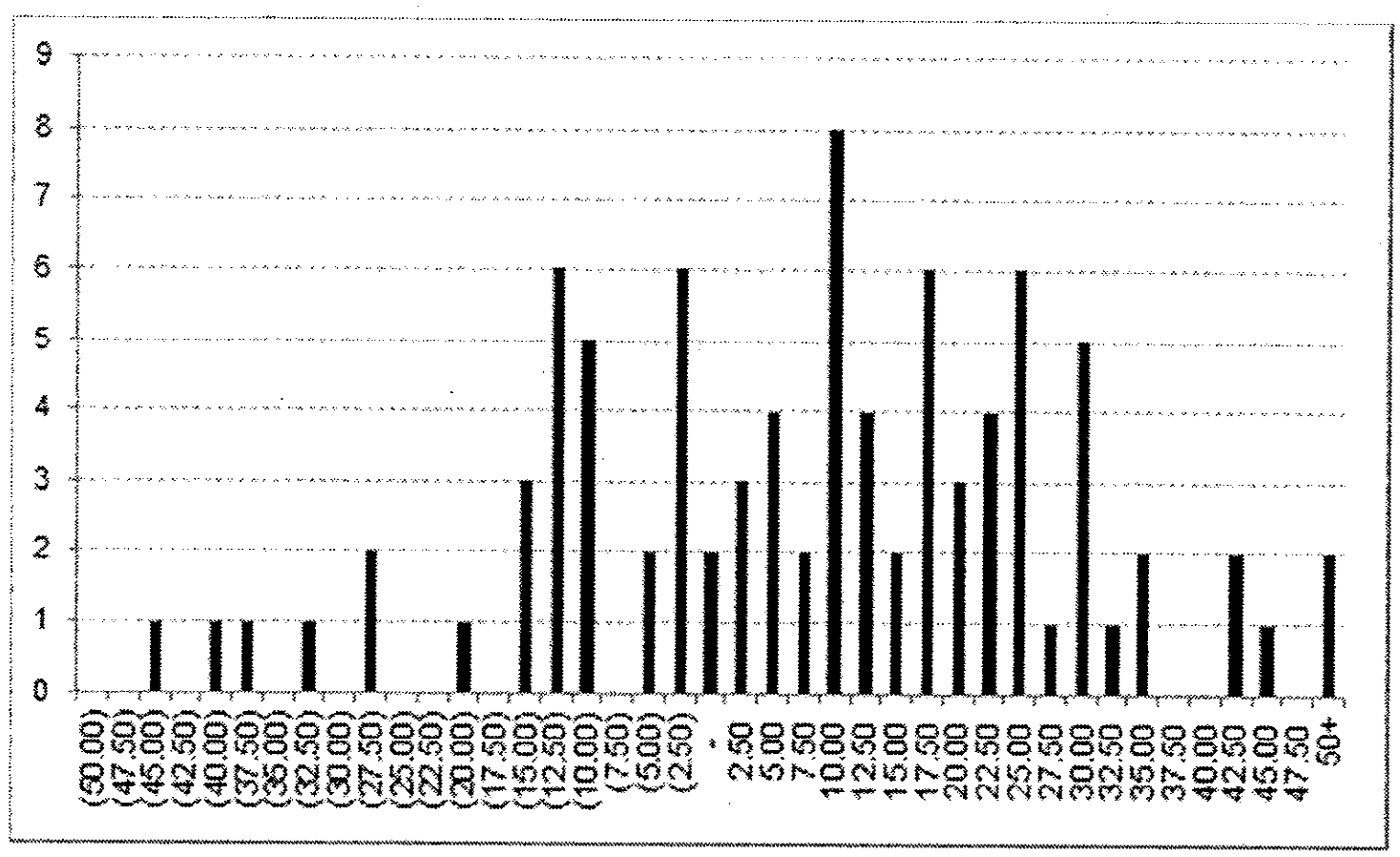
40 Morningstar, Inc., 2013 Ibbotson Stocks, Bonds, Bills, and Inflation Valuation Yearbook, at 53.

41 *Ibid.*, at 28.

Chart 5: MRP Frequency Distribution[42]



I then considered a different perspective, calculating the cumulative probability of the same ranges of MRP estimates. Those results, which are provided in Chart 6 (below) demonstrate that there is a greater than 53.00% probability that an MRP of at least 7.50% will occur in any given year, and a 45.00% likelihood that an MRP of at least 10.00% will occur.

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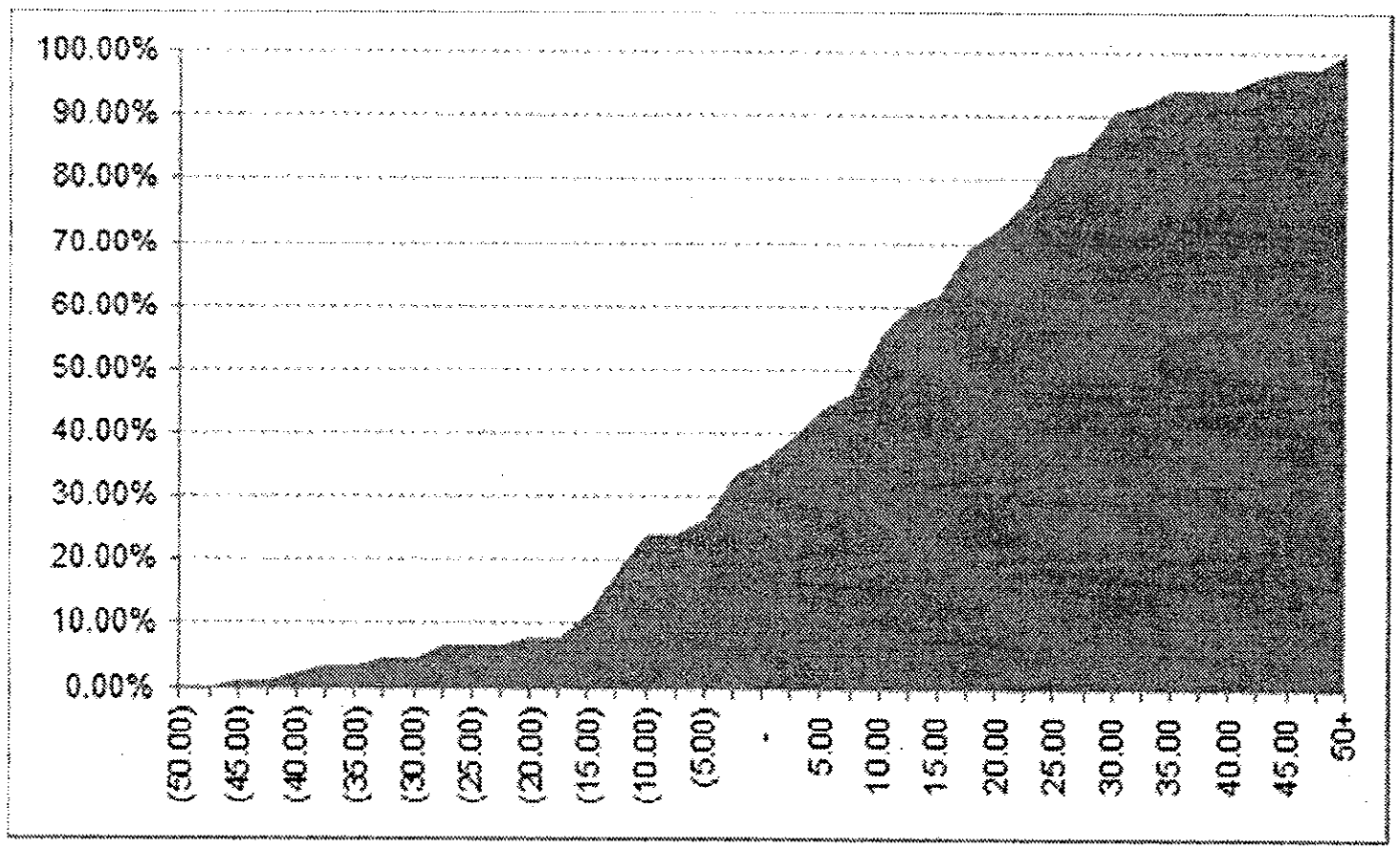
42 *Ibid.*, at 142-147, Table A-1.

Chart 6: Cumulative Probability of Market Risk Premia[43]



Those data present another interesting point: the annual average MRP of 6.70% is quite heavily influenced by a small number of large, negative observations. In 2008, for example, the MRP was negative 41.40% and as a result, the average long-term MRP fell.[44] In other words, in the year during which market risk and uncertainty were at historically high levels, the historical average MRP suggested that investors required a significantly lower return on equity investments than they did on Treasury securities. In fact, as shown on Table 2 (below), the historical average MRP decreased from 7.10% to 6.70%, while market volatility increased from 17.54% to a high of 32.69% in 2008 and eventually fell to 17.80% in 2012. That is, the effect of the 2007 to 2009 financial dislocation, in which realized returns fell and volatility increased, was to decrease the long-term average Market Risk Premium.

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43 *Ibid.*

44 *Ibid.*, at 147.

Table 2: Historical MRP and Market Volatility

	Market Volatility[45]	*Historical MRP*[46]
2012	17.80	6.70%
2011	24.20	6.60%
2010	22.55	6.70%
2009	31.48	6.70%
2008	32.69	6.50%
2007	17.54	7.10%

The assumption that investors would become less risk averse (as manifested in a lower MRP) during periods of increasing market uncertainty (as measured by the volatility of returns) is counter-intuitive, and in my view, leads to unreliable analytical results. As such, my estimates of the MRP are highly consistent with history, unlike DPA Witness Parcell suggests.

Q29. Do you agree with DPA Witness Parcell's use of the total return on long-term government bonds in his calculation of the historical MRP?

A29. No, I do not. The MRP noted in Table 2 (above) is calculated based on the difference between the arithmetic average return on large company stocks and the income-only return on long-term government bonds as reported by Morningstar (producing an estimated risk premium in 2012 of 6.70%). DPA Witness Parcell, however, calculates the risk premium as the difference between the total return on those two asset classes, implying a risk premium of 4.10% to 5.70% in 2012.[47]

As Morningstar points out, the total return on a security is composed of three

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45 Bloomberg Professional Service. Market Volatility equals the average VIX for a given year.

46 *See* Morningstar, Inc., 2013 Ibbotson Stocks, Bonds, Bills and Inflation Valuation Yearbook, at 143, Table A-1. Historical MRP equals total return on large company stocks less income return on long-term government securities.

47 *See* Direct Testimony of DPA Witness Parcell, at 28.

components: (1) the income return; (2) capital gains (or capital losses, if the value of the security falls); and (3) reinvestment return.[48] The income return is generally defined as the coupon, or interest rate on the security, which does not change over the life of the security. In contrast, the value of the security rises or falls as interest rates change, resulting in uncertain capital gains. As such, the income return is the only "riskless" component of the total return. Consequently, it is the income-only portion of the return, as opposed to the total return, that should be used in calculating the MRP.

Q30. Do you agree with DPA Witness Parcell's use of the geometric mean risk premiums to derive his MRP estimate of 4.10%?

A30. No. The important distinction between the arithmetic and geometric averages is that the arithmetic mean assumes that each periodic return is an independent observation and, therefore, incorporates uncertainty into the calculation of the long-term average. The geometric mean, by contrast, is a backward-looking calculation that essentially equates a beginning value to an ending value over a specific period of time. Geometric averages, therefore, provide a standardized basis of review of historical performance across investments or investment managers; they do not, however, reflect forward-looking uncertainty.

Since there is no uncertainty with respect to past returns, the use of geometric averages is appropriate when comparing investment performance on a retrospective basis. On a prospective basis, however, uncertainty exists and should be taken into consideration when developing return expectations and requirements. That is why

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[48] Morningstar, Inc., 2013 Ibbotson Stocks, Bonds, Bills, and Inflation Valuation Yearbook, at 55.

investors and researchers commonly use the arithmetic mean when estimating the risk premium over historical periods for the purpose of estimating equity cost rates. Moreover, investment risk, or volatility, typically is measured on the basis of the standard deviation. The standard deviation, in turn, is a function of the arithmetic, as opposed to the geometric mean. In that regard, the Beta coefficients applied in CAPM analyses are a function the standard deviation of returns.[49] In any case, Morningstar notes that:

> The arithmetic average equity risk premium can be demonstrated to be the most appropriate when discounting future cash flows. For use as the expected equity risk premium in either the CAPM or the building block approach, the arithmetic mean or the simple difference of the arithmetic means of the stock market returns and the riskless rates is the relevant number.[50]

Q31. Do you agree with DPA Witness Parcell's calculation of the MRP based on the historical earned return on common equity?

A31. No, I do not. First, it is difficult to reconcile the data in his analysis with actual market experience. By way of example, DPA Witness Parcell's analysis assumes that in 2008, investors earned a positive return of 3.03%.[51] In 2008, of course, the market actually lost 37.00% of its value; only the year 1931 experienced a greater loss.[52]

Moreover, DPA Witness Parcell's analysis ignores the well-established

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49 *See* Direct Testimony of Robert B. Hevert, at 16.

50 Morningstar, Inc., 2013 Ibbotson Stocks, Bonds, Bills and Inflation Valuation Yearbook, at 56.

51 *See* Direct Testimony of DPA Witness Parcell, Exhibit DCP-8.

52 Morningstar, Inc., 2013 Ibbotson Stocks, Bonds, Bills and Inflation Valuation Yearbook, Table B-1 at 182-183.

inverse relationship between the MRP and interest rates.[53] As demonstrated in Schedule (RBH-R)-10, the data contained in DPA Witness Parcell's Exhibit DCP-8 produce a statistically significant negative relationship between the MRP and the 20-year Treasury yield. Consequently, if DPA Witness Parcell is going to use the current 20-year Treasury bond yield, which remains far below the 7.12% average over that time, in his CAPM analysis, he should recognize that the MRP would be considerably higher than 5.47%.[54] Schedule (RBH-R)-10 further demonstrates that taking into consideration the inverse relationship between the MRP and interest rates (via both a simple linear regression analysis and a semi-log regression analysis) suggests an MRP of 10.40% to 11.13%. Those, of course, are well above the 5.47% MRP included in DPA Witness Parcell's 6.90% to 7.00% CAPM range, and produce CAPM estimates of 10.52% to 11.05% based on his proxy group.[55]

Q32. Does DPA Witness Parcell rely on his CAPM analysis in determining his recommended ROE?

A32. No, DPA Witness Parcell does not give any weight to his CAPM results to set his recommended range or ROE. It appears that DPA Witness Parcell does not believe his CAPM results provide a reasonable estimate Delmarva's ROE. In that regard I agree with DPA Witness Parcell. The reasonableness and reliability of an analysis that produces an ROE estimate of 7.00% (which is the upper end of DPA

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53 *See* Robert S. Harris and Felicia C. Marston, *Estimating Shareholder Risk Premia Using Analysts' Growth Forecasts*, Financial Management, Summer 1992, at 63-70; Eugene F. Brigham, Dilip K. Shome, and Steve R. Vinson, *The Risk Premium Approach to Measuring a Utility's Cost of Equity*, Financial Management, Spring 1985, at 33-45; and Farris M. Maddox, Donna T. Pippert, and Rodney N. Sullivan, *An Empirical Study of Ex Ante Risk Premiums for the Electric Utility Industry*, Financial Management, Autumn 1995, at 89-95.

54 *See* Direct Testimony of DPA Witness Parcell, at 28.

55 *Ibid.*

Witness Parcell's CAPM analysis range)[56] must be properly viewed within the current capital market environment. That estimate is 175 basis points below the lowest ROE award reported by Regulatory Research Associates since at least 1980, and represents only a 179 basis point equity premium over the 5.21% Baa Utility Bond Yield (as of July 2013) presented in DPA Witness Parcell's Exhibit DCP-2, page 4. DPA Witness Parcell's CAPM estimate, therefore, is well below any meaningful measure of the Company's Cost of Equity. However, as discussed above, adjusting his analysis to account for the inverse relationship between Treasury bond yields and the MRP produces results that are far more reasonable and, in fact, are fairly consistent with those in my updated CAPM analysis.[57]

Market-to-Book Ratios and Comparable Earnings Method

Q33. Please provide a brief definition of the Market-to-Book ratio.

A33. The M/B ratio equals the market value (or stock price) per share, divided by the total common equity (or the book equity) per share. Book value per share is an accounting construct, which reflects historical costs. In contrast, market value per share (*i.e.,* the stock price) is forward-looking, and is a function of many variables, including (but not limited to) expected earnings and cash flow growth, expected payout ratios, measures of "earnings quality", the regulatory climate, the equity ratio,

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56 *Ibid.,* at 28.

57 *See* Schedules (RBH-R)-10.

expected capital expenditures, and the expected return on book equity.[58] It follows, therefore, that the M/B ratio likewise is a function of numerous variables in addition to the historical or expected Return on Common Equity.

Q34. Please describe DPA Witness Parcell's application of the Comparable Earnings analysis.

A34. DPA Witness Parcell's Comparable Earnings analysis examines realized Return on Common Equity (ROCE) for several groups of companies (our respective proxy groups, and the S&P 500 companies) and evaluates investor acceptance of those returns by reference to the resulting M/B ratio.[59] DPA Witness Parcell reasons that his results indicate historical returns of 8.30% to 12.00% have been adequate to produce M/B ratios of 120.00% to 170.00%.[60] His review of S&P 500 companies, which DPA Witness Parcell considers to be representative of the competitive sector of the economy, indicate average earned returns from 12.40% to 14.70%, with M/B ratios ranging from 204.00% to 341.00%.[61] Lastly, DPA Witness Parcell compares the risk levels of the utility industry with those of the competitive sector, by considering such metrics as the Value Line Safety Rank, Value Line Beta Coefficient,

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58 *See* for example, Roger A. Morin, New Regulatory Finance, Public Utility Reports, Inc., 2006, at 366. Please note that Dr. Morin cites several academic articles that address the various factors that affect the Market-to-Book ratio for utilities. In addition, the notion that book values should be set at a value approaching unity by regulatory commissions has been refuted for many years. As noted by Stewart Myers in 1972: "In short, a straightforward application of the cost of capital to a book value rate base does not automatically imply that the market and book values will be equal. This is an obvious but important point. If straightforward approaches did imply equality of market and book values, then there would be no need to estimate the cost of capital. It would suffice to lower (raise) allowed earnings whenever markets were above (below) book." Stewart C. Myers, *The Application of Finance Theory to Public Utility Rate Cases*, The Bell Journal of Economics and Management Science, Vol. 3, No. 1 (Spring 1972), at 58-97.

59 *See* Direct Testimony of DPA Witness Parcell, at 31-33.

60 *Ibid.*, at 31.

61 *Ibid.*, at 32.

Value Line Financial Strength, and S&P Stock Rank.[62]

Based on his Comparable Earnings analysis, DPA Witness Parcell concludes that "the COE (Cost of Equity) for the proxy utilities is no more than 9.0% to 10.0%."[63] DPA Witness Parcell further concludes that "an earned return of 9.0% to 10.0% should thus result in a M/B well above 100%,"[64] and that "the fact that M/B ratios substantially exceed 100% indicates that historic and prospective ROEs of over 10.0% reflect earnings levels that are well above the actual COE for those regulated companies."[65]

Q35. Do you agree with DPA Witness Parcell's Comparable Earnings analysis?

A35. No, I do not. With respect to the structure of his analysis, I disagree with DPA Witness Parcell's assumption that the earned ROCE (the "Return on Average Common Equity" presented in Exhibit DCP-10, Page 1 of 2) is the sole determinant of the M/B ratio. Even if that assumption was correct, DPA Witness Parcell provides no empirical basis regarding the relationship between M/B ratios and the earned ROCE. Nor, for that matter, does DPA Witness Parcell provide an empirical basis for his determination regarding the appropriate M/B ratio. Rather, DPA Witness Parcell suggests that Market-to-Book ratios of 130.00% and greater indicate excessive earnings levels, but provides no evidence to support that position.[66] Because DPA Witness Parcell's analysis is substantially subjective in nature, his assumptions and conclusions (as presented) cannot be replicated, verified or falsified. Given that the

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62 *Ibid.*, Exhibit DCP-12.
63 Direct Testimony of DPA Witness Parcell, at 32. Clarification added.
64 *Ibid.*, at 32-33.
65 *Ibid.*, at 33.
66 *Ibid.*, at 32.

CEM analysis defines the upper end of DPA Witness Parcell's ROE range, the subjective nature of his conclusions have a significant effect on his ROE recommendation (*i.e.*, 9.35%).

Q36. As a practical matter, would a rational investor invest in utility stocks if they believed that utility commissions would set rates in an effort to move the M/B ratio toward unity?

A36. No. DPA Witness Parcell suggests that, "One objective of a fair COE is the maintenance of stock prices at or above book value," however he also notes that, "There is no regulatory obligation to set rates designed to maintain a M/B significantly above one."[67] If an investor purchased a utility stock at the long-term average M/B ratio of approximately 145.00% (*i.e.*, DPA Witness Parcell's proxy group average from 1992-2012 as calculated based on the annual median results for DPA Witness Parcell's proxy group in Exhibit DCP-10), that investor would incur a loss of approximately 31.00% if the M/B ratio fell to 100.00% or 23.45% if the M/B ratio fell to 111.00% (*i.e.*, a level that presumably is not "significantly above one").[68] Such a result would certainly impede the ability to attract the capital required to support its operations.

That example points out a substantial shortcoming of DPA Witness Parcell's analysis: while he suggests that the current level of M/B ratios indicates returns that exceed the Cost of Equity, he fails to identify the ratio that would set the required return equal to the realized return. It is not surprising that DPA Witness Parcell has

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67 *Ibid.*, at 30.

68 Even assuming the 146.00% M/B ratio for DPA Witness Parcell's proxy group in 2012, the loss would be approximately 31.50% or 24.00% if the M/B fell to 100.00% or 111.00%, respectively. As discussed below, 111.00% reflects a 10.00% factor for dilution and flotation costs.

not done so since, as discussed below, there are a number of variables beyond the earned ROE that affect the M/B ratio. Because the data presented by DPA Witness Parcell focuses on only one of those factors (*i.e.,* the earned return on equity), they produce empirical results that are highly inconsistent with market realities.

To the extent that DPA Witness Parcell suggests that a given M/B ratio is the objective of regulation, I disagree. In my view, M/B ratios are a result, not the objective of regulatory decisions.

Lastly, like the Price-to-Earnings ratio, the Market-to-Book ratio is used in practice as a measure of relative valuation. That is, it typically is used by investors to assess the value of an asset relative to similar assets rather than as a measure of absolute value. Therefore, investors would be more likely to assess the value of an electric utility relative to a Market-to-Book ratio of 145.00% than, for example, 100.00%. In light of the theoretical and practical concerns discussed above, I disagree with DPA Witness Parcell's position that Market-to-Book ratios above 100.00% indicate that authorized ROEs exceed investors' return requirements.

Q37. How does DPA Witness Parcell reflect the relationship between M/B ratios and the Return on Common Equity in his CEM analysis?

A37. DPA Witness Parcell first compares the historical earned returns on book equity with historical M/B ratios for our respective proxy groups,[69] and concludes that historical earned returns on book equity support M/B ratios from 120.00% to 170.00%.[70] DPA Witness Parcell then considers the historical earned returns on book equity and concurrent M/B ratios for the S&P 500 (for the years 1992 through 2012),

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69 *See* Direct Testimony of DPA Witness Parcell, at 31.
70 *Ibid.*

together with a comparison of the risk levels for both the S&P 500 and our respective proxy groups. Based on those observations, DPA Witness Parcell concludes that the "competitive sector" (*i.e.,* the S&P 500) is more risky than the proxy companies, and has historical earned returns and M/B ratios that exceed those of the proxy groups.[71]

Q38. Does DPA Witness Parcell consider variables other than the earned return on equity in arriving at his Cost of Equity estimate?

A38. No. Although DPA Witness Parcell considers differences in the level of risk between the proxy group and the S&P 500 to arrive at his conclusion that unregulated companies are relatively more risky than regulated companies, that point is not in dispute. Beyond that, DPA Witness Parcell does not consider any other variables that may affect M/B ratios.

Q39. What are the implications of his failure to do so?

A39. By failing to consider other variables, DPA Witness Parcell's CEM analysis assumes that the only factor that has a "direct relationship" to the M/B ratio is the earned ROE.[72] If that were the case, the relationship between earned returns and the M/B ratio could be estimated via linear regression analysis. Using the data contained in DPA Witness Parcell's Exhibit DCP-10, I developed a simple linear regression, in which the M/B ratio is the dependent variable, and the ROCE is the sole explanatory variable.[73]

Q40. Please briefly describe how your regression analysis is structured.

A40. My first analysis is focused on the average equity returns and M/B ratios

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71 *Ibid.,* at 32.
72 *Ibid.,* at 32-33.
73 *See* Schedule (RBH-R)-11.

presented in DPA Witness Parcell's Exhibit DCP-10.[74] For DPA Witness Parcell's proxy group, I performed a linear regression analysis in which the M/B ratio was modeled as a function of the ROCE. In that case, the regression equation was statistically significant at the 95.00% confidence level. I then used the regression coefficients to determine the ROCE that would be associated with various levels of M/B ratios.

Q41. On what basis did you select the range of M/B ratios?

A41. While DPA Witness Parcell did not specify what he would consider to be the optimal ratio, he did note that an objective of setting the ROE would be to "attract new equity capital without dilution."[75] Since dilution would be a function of both equity issuance costs and the market pressure associated with new shares, the M/B ratio should exceed 100.00% in an amount sufficient to reflect those costs. Assuming a dilution cost of 10.00% (reflecting both direct costs and market pressure) would be quite reasonable, if not conservative.[76] Based on a 10.00% dilution rate, the adjusted M/B ratio would be approximately 111.00%.[77]

Using the regression coefficients (*see* Schedule (RBH-R)-11), I then calculated the ROE that would correspond to an M/B ratio of 111.00% for the respective proxy groups. In the case of DPA Witness Parcell's proxy group, the resulting ROE is approximately 5.76%; the resulting ROE for my proxy group is approximately 5.69%. Those results are only 32 to 39 basis points above the Baa-

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74 Please note that because DPA Witness Parcell did not provide projected Market-to-Book ratios, my analysis necessarily was based on historical data.

75 Direct Testimony of DPA Witness Parcell, at 30.

76 *See* Roger A. Morin, New Regulatory Finance, Public Utility Reports, Inc., 2006, at 323-327.

77 Equals (1/(1-dilution costs).

rated utility bond yield as of September 6, 2013 and as such, have no relevance to the determination of the Company's Cost of Equity.

Q42. Did you perform similar analyses to determine the M/B ratio that would be associated with the Company's recommended ROE?

A42. Yes, I did. Based on our respective proxy groups, I calculated the M/B ratios that correspond to an ROE of 10.25%. Using the data in Exhibit DCP-10, I then calculated the percentile in which the implied M/B ratio fell within the historical observations (I performed the same calculation for both my and DPA Witness Parcell's proxy groups). The results of those analyses are presented in Table 3 (below).

Table 3: Implied Market-to-Book Ratios at 10.25% ROE[78]

Proxy Group	*Implied Market-to-Book Ratio*	*Relative Rank (Percentile)*	*Implied ROE*
Parcell Proxy Group	154.00%	55th	10.25%
Hevert Proxy Group	147.00%	51st	10.25%

Q43. What are your conclusions regarding DPA Witness Parcell's Comparable Earnings Method?

A43. My principal conclusion is that DPA Witness Parcell's CEM results under-estimates the Company's Cost of Equity. Based on the data presented in Exhibit DCP-10, the lower end of my recommended range (*i.e.*, 10.25% to 10.75%) is a more reasonable estimate.

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78 *See* Schedule (RBH-R)-11.

IV. Updated Results

Q44. Please summarize the analytical updates contained in your Rebuttal Testimony.

A44. My updated analytical results are presented in Schedules (RBH-R)-1 through 6. As discussed above, I also include a Multi-Stage DCF model (*see* Schedule (RBH-R)-7). All of the models used to estimate the Cost of Equity are subject to limiting assumptions or other methodological constraints. Adherence to any single approach, or the results of any one approach, can result in misleading conclusions; a reasonable ROE estimate therefore weighs the individual and collective results of alternate methodologies.[79] Because the capital markets, in particular long-term Treasury yields, have significantly changed since the filing of my Direct Testimony, and given the risks and costs associated with increased interest rates on capital-intensive companies such as Delmarva, it is especially important to consider the breadth of quantitative and qualitative information contained in my Rebuttal Testimony.

Developing and establishing a Cost of Equity recommendation requires an element of judgment. That judgment, however, should consider the reasonableness of model results, and the economic environment in which the analyses were undertaken. As described in Section II, the recent increases in interest rates should be associated with an increase in the Cost of Equity, even if not to the same degree. That is consistent with the results found in the CAPM and Bond Yield Plus Risk Premium methods; the increase in long-term interest rates indicates an increase in the Cost of Equity under both models. As discussed in my Direct Testimony, no model should be

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79 It is for that reason that I applied multiple models in my Direct Testimony in order to estimate Delmarva's ROE. *See* Direct Testimony of Robert B. Hevert, at 10.

applied without considerable judgment in the interpretation of results.[80] The recent trends in the Constant Growth DCF results are difficult to reconcile with observable, prevailing market conditions.

My recommendations therefore take into consideration the results of my Cost of Equity analyses in the context of current and expected capital market conditions, and the need for utilities such as Delmarva to maintain a level of financial integrity that enables access to capital, at reasonable costs, under a variety of economic and financial market conditions. The significant market changes that have occurred over the past several months suggest that the results provided by certain analytical models are understated relative to prevailing and expected market conditions. Preserving Delmarva's current credit profile is an important consideration in enabling the Company to access the capital markets, as needed and at reasonable cost rates. With such considerations in mind, the analyses and data discussed throughout my Rebuttal Testimony support my recommended range of 10.25% to 10.75%, and the Company's proposed ROE of 10.25%.

Q45. Did you give your Sharpe Ratio-based CAPM estimates significant weight in arriving at your ROE range and recommendation?

A45. No, I did not. The CAPM results based on the Sharpe ratio derived MRP range from 8.91% to 9.22%. As discussed above, results below over 99.50% of authorized ROEs since 1980 (and well below the Company's previously authorized ROE) should be given little to no weight in the context of developing a recommended ROE.

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[80] *Ibid.*, at 10, 27.

In terms of the application of that model, the long-term MRP of 6.70% is based on the surplus of the historical total return for large company stocks of 11.80% over the income-only return on long-term government bonds of 5.10%. Under the Sharpe Ratio approach, the expected MRP will approximate the historical MRP when expected volatility approximates historical volatility, as currently is the case.[81] And, while the Sharpe Ratio approach also is meant to capture the interaction between volatility and Treasury yields, the current 30-year Treasury yield (3.59%) is below the historical average (5.10%). Consequently, even if expected volatility is approximately equal to the historical average, the current level of Treasury yields suggest that the CAPM approach would understate the Company's Cost of Equity. As such, I believe the relevant range of CAPM results is 9.96% to 10.81%.

Q46. Do you believe the business risks discussed in your Direct Testimony still apply to Delmarva?

A46. Yes, I do. As discussed in my Direct Testimony, Delmarva is significantly smaller than the proxy companies.[82] The Company is also affected by flotation costs associated with the issuance of new shares.[83]

V. Conclusions and Recommendation

Q47. Please summarize the analyses and conclusions contained in your Rebuttal Testimony.

A47. My updated analytical results are provided in Schedules (RBH-R)-1 through

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81 Expected volatility as measured in Schedule (RBH-R)-2 by the VIX term structure is 22.68, whereas the long term average VIX has been approximately 20.27 since its inception. Similarly, as shown in Schedule (RBH-R)-2, historical market volatility based on data from Morningstar has been 20.18%.

82 *See* Direct Testimony of Robert B. Hevert, at 24-26.

83 *Ibid.*, at 26-27. I have updated my analysis of the appropriate flotation cost adjustment in Schedule (RBH-R)-6.

6; my Multi-Stage DCF model is presented in Schedule (RBH-R)-7. My recommended ROE takes into account the results of these various models and analyses as well as the specific business risks faced by Delmarva, including the Company's relatively small size and the effect of flotation costs. My recommended ROE also takes into account the state of the capital markets. Specifically, it is important to consider recent significant increases in Treasury bond yields, utility bond yields and the relative under-performance of utility stocks. Therefore, I conclude that the reasonable range of ROE estimates is from 10.25% to 10.75% and within that range, 10.25% is a reasonable and appropriate estimate of the Company's Cost of Equity.

Q48. Does this conclude your Rebuttal Testimony?

A48. Yes, it does.

Constant Growth Discounted Cash Flow Model
30-Day Average Stock Price

Company	Ticker	[1] Annualized Dividend	[2] Average Stock Price	[3] Dividend Yield	[4] Expected Dividend Yield	[5] Zacks Earnings Growth	[6] First Call Earnings Growth	[7] Value Line Earnings Growth	[8] Average Earnings Growth	[9] Low ROE	[10] Mean ROE	[11] High ROE
American Electric Power Company, Inc.	AEP	$1.96	$45.56	4.30%	4.39%	3.87%	3.81%	4.50%	4.06%	8.19%	8.45%	8.90%
Cleco Corp.	CNL	$1.45	$47.25	3.07%	3.18%	8.00%	8.00%	5.50%	7.17%	8.65%	10.35%	11.19%
Empire District Electric	EDE	$1.00	$22.96	4.35%	4.43%	3.00%	3.00%	5.00%	3.67%	7.42%	8.10%	9.46%
Great Plains Energy Inc.	GXP	$0.87	$23.40	3.72%	3.83%	6.19%	6.26%	6.50%	6.32%	10.02%	10.15%	10.34%
Hawaiian Electric Industries, Inc.	HE	$1.24	$25.84	4.80%	4.89%	3.70%	2.40%	5.50%	3.87%	7.26%	8.76%	10.43%
IDACORP, Inc.	IDA	$1.52	$50.04	3.04%	3.09%	4.00%	4.00%	2.00%	3.33%	5.07%	6.42%	7.10%
Otter Tail Corporation	OTTR	$1.19	$29.68	4.01%	4.13%	6.00%	6.00%	N/A	6.00%	10.13%	10.13%	10.13%
Pinnacle West Capital Corp.	PNW	$2.18	$56.93	3.83%	3.92%	4.45%	5.45%	5.00%	4.97%	8.36%	8.89%	9.38%
PNM Resources, Inc.	PNM	$0.66	$22.76	2.90%	3.02%	7.32%	6.43%	12.00%	8.58%	9.42%	11.61%	15.07%
Portland General Electric Company	POR	$1.10	$31.12	3.53%	3.63%	6.30%	6.52%	3.50%	5.44%	7.10%	9.07%	10.17%
Southern Company	SO	$2.03	$44.45	4.57%	4.67%	4.61%	4.60%	4.50%	4.57%	9.17%	9.24%	9.28%
Westar Energy, Inc.	WR	$1.36	$32.41	4.20%	4.30%	4.31%	3.90%	6.00%	4.74%	8.18%	9.03%	10.32%
PROXY GROUP MEAN				3.86%	3.96%	5.15%	5.03%	5.45%	5.23%	8.25%	9.18%	10.15%
PROXY GROUP MEDIAN				3.92%	4.03%	4.53%	5.03%	5.00%	4.85%	8.28%	9.05%	10.15%

Notes:
[1] Source: Bloomberg Professional
[2] Source: Bloomberg Professional, equals 30-trading day average as of July 31, 2013
[3] Equals [1] / [2]
[4] Equals [3] x (1 + 0.5 x [8])
[5] Source: Zacks
[6] Source: Yahoo! Finance
[7] Source: Value Line
[8] Equals Average([5], [6], [7])
[9] Equals [3] x (1 + 0.5 x Minimum([5], [6], [7])) + Minimum([5], [6], [7])
[10] Equals [4] + [8]
[11] Equals [3] x (1 + 0.5 x Maximum([5], [6], [7])) + Maximum([5], [6], [7])

Constant Growth Discounted Cash Flow Model
90-Day Average Stock Price

Company	Ticker	[1] Annualized Dividend	[2] Average Stock Price	[3] Dividend Yield	[4] Expected Dividend Yield	[5] Zacks Earnings Growth	[6] First Call Earnings Growth	[7] Value Line Earnings Growth	[8] Average Earnings Growth	[9] Low ROE	[10] Mean ROE	[11] High ROE
American Electric Power Company, Inc.	AEP	$1.96	$47.54	4.12%	4.21%	3.87%	3.81%	4.50%	4.06%	8.01%	8.27%	8.72%
Cleco Corp.	CNL	$1.45	$47.02	3.08%	3.19%	8.00%	8.00%	5.50%	7.17%	8.67%	10.36%	11.21%
Empire District Electric	EDE	$1.00	$22.59	4.43%	4.51%	3.00%	3.00%	5.00%	3.67%	7.49%	8.17%	9.54%
Great Plains Energy Inc.	GXP	$0.87	$23.36	3.72%	3.84%	6.19%	6.26%	6.50%	6.32%	10.03%	10.16%	10.34%
Hawaiian Electric Industries, Inc.	HE	$1.24	$26.57	4.67%	4.76%	3.70%	2.40%	5.50%	3.87%	7.12%	8.62%	10.30%
IDACORP, Inc.	IDA	$1.52	$48.80	3.11%	3.17%	4.00%	4.00%	2.00%	3.33%	5.15%	6.50%	7.18%
Otter Tail Corporation	OTTR	$1.19	$29.77	4.00%	4.12%	6.00%	6.00%	N/A	6.00%	10.12%	10.12%	10.12%
Pinnacle West Capital Corp.	PNW	$2.18	$58.02	3.76%	3.85%	4.45%	5.45%	5.00%	4.97%	8.29%	8.82%	9.31%
PNM Resources, Inc.	PNM	$0.66	$22.91	2.88%	3.00%	7.32%	6.43%	12.00%	8.58%	9.40%	11.59%	15.05%
Portland General Electric Company	POR	$1.10	$31.15	3.53%	3.63%	6.30%	6.52%	3.50%	5.44%	7.09%	9.07%	10.17%
Southern Company	SO	$2.03	$45.71	4.44%	4.54%	4.61%	4.60%	4.50%	4.57%	9.04%	9.11%	9.15%
Westar Energy, Inc.	WR	$1.36	$32.84	4.14%	4.24%	4.31%	3.90%	6.00%	4.74%	8.12%	8.98%	10.27%
PROXY GROUP MEAN				3.82%	3.92%	5.15%	5.03%	5.45%	5.23%	8.21%	9.15%	10.11%
PROXY GROUP MEDIAN				3.88%	3.98%	4.53%	5.03%	5.00%	4.85%	8.21%	9.02%	10.14%

Notes:
[1] Source: Bloomberg Professional
[2] Source: Bloomberg Professional, equals 90-trading day average as of July 31, 2013
[3] Equals [1] / [2]
[4] Equals [3] x (1 + 0.5 x [8])
[5] Source: Zacks
[6] Source: Yahoo! Finance
[7] Source: Value Line
[8] Equals Average([5], [6], [7])
[9] Equals [3] x (1 + 0.5 x Minimum([5], [6], [7])) + Minimum([5], [6], [7])
[10] Equals [4] + [8]
[11] Equals [3] x (1 + 0.5 x Maximum([5], [6], [7])) + Maximum([5], [6], [7])

Constant Growth Discounted Cash Flow Model
180-Day Average Stock Price

Company	Ticker	[1] Annualized Dividend	[2] Average Stock Price	[3] Dividend Yield	[4] Expected Dividend Yield	[5] Zacks Earnings Growth	[6] First Call Earnings Growth	[7] Value Line Earnings Growth	[8] Average Earnings Growth	[9] Low ROE	[10] Mean ROE	[11] High ROE
American Electric Power Company, Inc.	AEP	$1.96	$45.91	4.27%	4.36%	3.87%	3.81%	4.50%	4.06%	8.16%	8.42%	8.87%
Cleco Corp.	CNL	$1.45	$44.51	3.26%	3.37%	8.00%	8.00%	5.50%	7.17%	8.85%	10.54%	11.39%
Empire District Electric	EDE	$1.00	$21.74	4.60%	4.68%	3.00%	3.00%	5.00%	3.67%	7.67%	8.35%	9.71%
Great Plains Energy Inc.	GXP	$0.87	$22.25	3.91%	4.03%	6.19%	6.26%	6.50%	6.32%	10.22%	10.35%	10.54%
Hawaiian Electric Industries, Inc.	HE	$1.24	$26.33	4.71%	4.80%	3.70%	2.40%	5.50%	3.87%	7.17%	8.67%	10.34%
IDACORP, Inc.	IDA	$1.52	$46.77	3.25%	3.30%	4.00%	4.00%	2.00%	3.33%	5.28%	6.64%	7.31%
Otter Tail Corporation	OTTR	$1.19	$28.16	4.23%	4.35%	6.00%	6.00%	N/A	6.00%	10.35%	10.35%	10.35%
Pinnacle West Capital Corp.	PNW	$2.18	$55.53	3.93%	4.02%	4.45%	5.45%	5.00%	4.97%	8.46%	8.99%	9.48%
PNM Resources, Inc.	PNM	$0.66	$22.12	2.98%	3.11%	7.32%	6.43%	12.00%	8.58%	9.51%	11.69%	15.16%
Portland General Electric Company	POR	$1.10	$29.59	3.72%	3.82%	6.30%	6.52%	3.50%	5.44%	7.28%	9.26%	10.36%
Southern Company	SO	$2.03	$44.78	4.53%	4.64%	4.61%	4.60%	4.50%	4.57%	9.13%	9.21%	9.25%
Westar Energy, Inc.	WR	$1.36	$31.32	4.34%	4.45%	4.31%	3.90%	6.00%	4.74%	8.33%	9.18%	10.47%
PROXY GROUP MEAN				3.98%	4.08%	5.15%	5.03%	5.45%	5.23%	8.37%	9.30%	10.27%
PROXY GROUP MEDIAN				4.08%	4.19%	4.53%	5.03%	5.00%	4.85%	8.40%	9.19%	10.35%

Notes:
[1] Source: Bloomberg Professional
[2] Source: Bloomberg Professional, equals 180-trading day average as of July 31, 2013
[3] Equals [1] / [2]
[4] Equals [3] x (1 + 0.5 x [8])
[5] Source: Zacks
[6] Source: Yahoo! Finance
[7] Source: Value Line
[8] Equals Average([5], [6], [7])
[9] Equals [3] x (1 + 0.5 x Minimum([5], [6], [7])) + Minimum([5], [6], [7])
[10] Equals [4] + [8]
[11] Equals [3] x (1 + 0.5 x Maximum([5], [6], [7])) + Maximum([5], [6], [7])

Sharpe Ratio Derived *Ex-Ante* Market Risk Premium

[1]	[2]	[3]	[4]	[5]
RP_h	Vol_h	VOL_e	Historical Sharpe Ratio	RP_e
6.70%	20.18%	22.68%	33.19%	7.53%

	[6]
Date	Volatility
7/31/2013	20.44
7/30/2013	20.64
7/29/2013	20.77
7/26/2013	20.53
7/25/2013	21.11
7/24/2013	21.62
7/23/2013	21.85
7/22/2013	21.42
7/19/2013	23.07
7/18/2013	22.99
7/17/2013	23.08
7/16/2013	23.29
7/15/2013	23.13
7/12/2013	21.69
7/11/2013	21.98
7/10/2013	22.32
7/9/2013	22.54
7/8/2013	21.69
7/5/2013	23.49
7/3/2013	22.59
7/2/2013	23.59
7/1/2013	23.47
6/28/2013	24.05
6/27/2013	22.16
6/26/2013	22.74
6/25/2013	25.28
6/24/2013	23.77
6/21/2013	25.16
6/20/2013	25.47
6/19/2013	24.35
Average:	22.68

Notes:

[1] Source: Morningstar, Inc.
RP_h = historical arithmetic average Risk Premium

[2] Source: Morningstar, Inc.
Vol_h = historical market volatility

[3] Vol_e = expected market volatility (average of Col. [6])

[4] Equals [1] / [2]

[5] Equals [3] x [4]

[6] Source: CBOE VIX Term Structure Data

Ex-Ante Market Risk Premium
Market DCF Method Based - Bloomberg

[1]	[2]	[3]
S&P 500 Est. Required Market Return	Current 30-Year Treasury (30-day average)	Implied Market Risk Premium
13.29%	3.59%	9.70%

Notes:
[1] Source: Bloomberg Professional
[2] Source: Bloomberg Professional
[3] Equals [1] – [2]

Ex-Ante Market Risk Premium
Market DCF Method Based - Value Line

[1]	[2]	[3]
S&P 500 Est. Required Market Return	Current 30-Year Treasury (30-day average)	Implied Market Risk Premium
12.59%	3.59%	9.01%

Notes:
[1] Source: Value Line
[2] Source: Bloomberg Professional
[3] Equals [1] – [2]

Bloomberg and Value Line Beta Coefficients

Company	Ticker	[1] Bloomberg	[2] Value Line
American Electric Power Company, Inc.	AEP	0.644	0.65
Cleco Corp.	CNL	0.738	0.65
Empire District Electric	EDE	0.753	0.65
Great Plains Energy Inc.	GXP	0.751	0.80
Hawaiian Electric Industries, Inc.	HE	0.707	0.70
IDACORP, Inc.	IDA	0.831	0.70
Otter Tail Corporation	OTTR	0.775	0.90
Pinnacle West Capital Corp.	PNW	0.717	0.70
PNM Resources, Inc.	PNM	0.630	0.95
Portland General Electric Company	POR	0.756	0.75
Southern Company	SO	0.537	0.55
Westar Energy, Inc.	WR	0.649	0.75
Mean		0.707	0.73

Notes:
[1] Source: Bloomberg Professional
[2] Source: Value Line

Capital Asset Pricing Model Results
Sharpe Ratio, Bloomberg, and Value Line Derived Market Risk Premium

	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]
			Ex-Ante Market Risk Premium			CAPM Results		
	Risk-Free Rate	Average Beta Coefficient	Sharpe Ratio Derived	Bloomberg Market DCF Derived	Value Line Market DCF Derived	Sharpe Ratio Derived	Bloomberg Market DCF Derived	Value Line Market DCF Derived
PROXY GROUP BLOOMBERG BETA COEFFICIENT								
Current 30-Year Treasury (30-day average) [9]	3.59%	0.707	7.53%	9.70%	9.01%	8.91%	10.45%	9.96%
Near-Term Projected 30-Year Treasury [10]	3.73%	0.707	7.53%	9.70%	9.01%	9.06%	10.60%	10.10%
Mean						8.98%	10.52%	10.03%

			Ex-Ante Market Risk Premium			CAPM Results		
	Risk-Free Rate	Average Beta Coefficient	Sharpe Ratio Derived	Bloomberg Market DCF Derived	Value Line Market DCF Derived	Sharpe Ratio Derived	Bloomberg Market DCF Derived	Value Line Market DCF Derived
PROXY GROUP VALUE LINE AVERAGE BETA COEFFICIENT								
Current 30-Year Treasury (30-day average) [9]	3.59%	0.729	7.53%	9.70%	9.01%	9.07%	10.66%	10.15%
Near-Term Projected 30-Year Treasury [10]	3.73%	0.729	7.53%	9.70%	9.01%	9.22%	10.81%	10.30%
Mean						9.15%	10.73%	10.23%

Notes:
[1] See *Notes [9] and [10]*
[2] Source: Schedule (RBH-R)-3
[3] Source: Schedule (RBH-R)-2
[4] Source: Schedule (RBH-R)-2
[5] Source: Schedule (RBH-R)-2
[6] Equals Col. [1] + (Col. [2] x Col. [3])
[7] Equals Col. [1] + (Col. [2] x Col. [4])
[8] Equals Col. [1] + (Col. [2] x Col. [5])
[9] Source: Bloomberg Professional
[10] Source: Blue Chip Financial Forecasts, Vol. 32, No. 7, July 1, 2013, at 2

Bond Yield Plus Risk Premium

	[1] Constant	[2] Slope	[3] 30-Year Treasury Yield	[4] Risk Premium	[5] Return on Equity
Current	-3.08%	-2.94%	3.59%	6.70%	10.29%
Near Term Projected	-3.08%	-2.94%	3.73%	6.58%	10.32%
Long-Term Projected	-3.08%	-2.94%	5.40%	5.50%	10.90%

Notes:
[1] Constant of regression equation
[2] Slope of regression equation
[3] Source: Current = Bloomberg Professional,
Near Term Projected = Blue Chip Financial Forecasts, Vol. 32, No. 7, July 1, 2013, at 2,
Long Term Projected = Blue Chip Financial Forecasts, Vol. 32, No. 6, June 1, 2013, at 14
[4] Equals [1] + [2] x ln([3])
[5] Equals [3] + [4]

Flotation Cost Adjustment

Two most recent open market common stock issuances per company, if available

Company	Date	Shares Issued	Offering Price	Underwriting Discount [i]	Offering Expense	Net Proceeds Per Share	Total Flotation Costs	Gross Equity Issue Before Costs	Net Proceeds	Flotation Cost Percentage
Pepco Holdings, Inc.	3/5/2012	17,922,077	$19.25	$0.6738	$500,000	$18.55	$12,574,999	$344,999,982	$332,424,983	3.645%
Pepco Holdings, Inc.	11/5/2008	16,100,000	$16.50	$0.6188	$200,000	$15.87	$10,161,875	$265,650,000	$255,488,125	3.825%
American Electric Power Company, Inc.	4/1/2009	69,000,000	$24.50	$0.7350	$400,000	$23.76	$51,115,000	$1,690,500,000	$1,639,385,000	3.024%
American Electric Power Company, Inc.	2/27/2003	57,500,000	$20.95	$0.6285	$550,000	$20.31	$36,688,750	$1,204,625,000	$1,167,936,250	3.046%
Cleco Corp.	8/14/2006	6,900,000	$23.75	$0.8900	$225,000	$22.83	$6,366,000	$163,875,000	$157,509,000	3.885%
Cleco Corp.	11/9/2004	2,000,000	$18.50	$0.6475	$200,000	$17.75	$1,495,000	$37,000,000	$35,505,000	4.041%
Empire District Electric	12/6/2007	3,450,000	$23.00	$0.9775	$250,000	$21.95	$3,622,375	$79,350,000	$75,727,625	4.565%
Empire District Electric	6/15/2006	3,795,000	$20.25	$0.8600	$250,000	$19.32	$3,513,700	$76,848,750	$73,335,050	4.572%
Great Plains Energy Inc.	5/12/2009	11,500,000	$14.00	$0.4900	$500,000	$13.47	$6,135,000	$161,000,000	$154,865,000	3.811%
Great Plains Energy Inc.	5/17/2006	7,002,450	$27.50	$0.8938	$500,000	$26.53	$6,758,790	$192,567,375	$185,808,585	3.510%
Hawaiian Electric Industries, Inc.	3/19/2013	7,000,000	$26.75	$1.0031	$450,000	$25.68	$7,471,840	$187,250,000	$179,778,160	3.990%
Hawaiian Electric Industries, Inc.	12/2/2008	5,750,000	$23.00	$0.8625	$300,000	$22.09	$5,259,375	$132,250,000	$126,990,625	3.977%
IDACORP, Inc.	12/9/2004	4,025,000	$30.00	$1.2000	$300,000	$28.73	$5,130,000	$120,750,000	$115,620,000	4.248%
Otter Tail Corporation	9/19/2008	5,175,000	$30.00	$1.0875	$400,000	$28.84	$6,027,813	$155,250,000	$149,222,188	3.883%
Otter Tail Corporation	12/7/2004	3,335,000	$25.45	$0.9500	$300,000	$24.41	$3,468,250	$84,875,750	$81,407,500	4.086%
Pinnacle West Capital Corp.	4/8/2010	6,900,000	$38.00	$1.3300	$190,000	$36.64	$9,367,000	$262,200,000	$252,833,000	3.572%
Pinnacle West Capital Corp.	4/27/2005	6,095,000	$42.00	$1.3650	$250,000	$40.59	$8,569,675	$255,990,000	$247,420,325	3.348%
PNM Resources, Inc.	12/6/2006	5,750,000	$30.79	$1.0780	$250,000	$29.67	$6,448,500	$177,042,500	$170,594,000	3.642%
PNM Resources, Inc.	3/23/2005	3,910,000	$26.76	$0.8697	$200,000	$25.84	$3,600,527	$104,631,600	$101,031,073	3.441%
Portland General Electric Company	6/11/2013	12,765,000	$29.50	$0.9588	$600,000	$28.49	$12,838,444	$376,567,500	$363,729,056	3.409%
Portland General Electric Company	3/5/2009	12,477,500	$14.10	$0.4935	$375,000	$13.58	$6,532,646	$175,932,750	$169,400,104	3.713%
Southern Company	12/6/2000	28,750,000	$28.50	$0.9200	$490,000	$27.56	$26,940,000	$819,375,000	$792,435,000	3.288%
Westar Energy, Inc.	11/4/2010	8,625,000	$25.54	$0.8939	$250,000	$24.62	$7,959,888	$220,282,500	$212,322,613	3.613%
Westar Energy, Inc.	5/29/2008	6,900,000	$24.28	$0.8498	$325,000	$23.38	$6,188,620	$167,532,000	$161,343,380	3.694%
Mean							$10,593,086	$310,681,071		

WEIGHTED AVERAGE FLOTATION COSTS: 3.410%

Notes:
[i] Underwriting discount was calculated as the market price minus the offering price when not explicitly given in the prospectus.

Constant Growth Discounted Cash Flow Model Adjusted for Flotation Costs - 30 Day Average Stock Price

		[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]	[11]
					Expected Dividend Yield							
Company	Ticker	Annualized Dividend	Average Stock Price	Dividend Yield	Current	Adjusted for Flot. Costs	Zacks Earnings Growth	First Call Earnings Growth	Value Line Earnings Growth	Average Earnings Growth	DCF k(e)	Flotation Adjusted DCF k(e)
American Electric Power Company, Inc.	AEP	$1.96	$45.56	4.30%	4.39%	4.54%	3.87%	3.81%	4.50%	4.06%	8.45%	8.60%
Cleco Corp.	CNL	$1.45	$47.25	3.07%	3.18%	3.29%	8.00%	8.00%	5.50%	7.17%	10.35%	10.46%
Empire District Electric	EDE	$1.00	$22.96	4.35%	4.43%	4.59%	3.00%	3.00%	5.00%	3.67%	8.10%	8.26%
Great Plains Energy Inc.	GXP	$0.87	$23.40	3.72%	3.83%	3.97%	6.19%	6.26%	6.50%	6.32%	10.15%	10.29%
Hawaiian Electric Industries, Inc.	HE	$1.24	$25.84	4.80%	4.89%	5.07%	3.70%	2.40%	5.50%	3.87%	8.76%	8.93%
IDACORP, Inc.	IDA	$1.52	$50.04	3.04%	3.09%	3.20%	4.00%	4.00%	2.00%	3.33%	6.42%	6.53%
Otter Tail Corporation	OTTR	$1.19	$29.68	4.01%	4.13%	4.27%	6.00%	6.00%	N/A	6.00%	10.13%	10.27%
Pinnacle West Capital Corp.	PNW	$2.18	$56.93	3.83%	3.92%	4.06%	4.45%	5.45%	5.00%	4.97%	8.89%	9.03%
PNM Resources, Inc.	PNM	$0.66	$22.76	2.90%	3.02%	3.13%	7.32%	6.43%	12.00%	8.58%	11.61%	11.71%
Portland General Electric Company	POR	$1.10	$31.12	3.53%	3.63%	3.76%	6.30%	6.52%	3.50%	5.44%	9.07%	9.20%
Southern Company	SO	$2.03	$44.45	4.57%	4.67%	4.84%	4.61%	4.60%	4.50%	4.57%	9.24%	9.41%
Westar Energy, Inc.	WR	$1.36	$32.41	4.20%	4.30%	4.45%	4.31%	3.90%	6.00%	4.74%	9.03%	9.18%
PROXY GROUP MEAN											9.18%	9.32%

Notes:
The proxy group DCF result is adjusted for flotation costs by dividing each company's expected dividend yield by (1 - flotation cost). The flotation cost adjustment is derived as the difference between the unadjusted DCF result and the DCF result adjusted for flotation costs.
[1] Source: Bloomberg Professional
[2] Source: Bloomberg Professional
[3] Equals [1] / [2]
[4] Equals [3] x (1 + 0.5 x [9])
[5] Equals [4] / (1 - 0.0341)
[6] Source: Zacks
[7] Source: Yahoo! Finance
[8] Source: Value Line
[9] Equals Average([6], [7], [8])
[10] Equals [4] + [9]
[11] Equals [5] + [9]
[12] Equals average [11] - average [10]

DCF Result Adjusted For Flotation Costs:	9.32%
DCF Result Unadjusted For Flotation Costs:	9.18%
Difference (Flotation Cost Adjustment):	0.14% [12]

Multi-Stage Growth Discounted Cash Flow Model
Mr. Hevert's Proxy Group
30-Day Average Stock Price

Inputs		[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]	[11]	[12]	[13]
		Stock	EPS Growth Rate Estimates				Long-Term	Payout Ratio			Iterative Solution		Terminal	Terminal
Company	Ticker	Price	Zacks	First Call	Value Line	Average	Growth	2013	2017	2023	Proof	IRR	P/E Ratio	PEG Ratio
American Electric Power Company, Inc.	AEP	$ 45.56	3.87%	3.81%	4.50%	4.06%	5.61%	64.00%	61.00%	66.67%	$0.00	10.04%	15.04	2.68
Cleco Corp.	CNL	$ 47.25	8.00%	8.00%	5.50%	7.17%	5.61%	57.00%	57.00%	66.67%	($0.00)	10.24%	14.41	2.57
Empire District Electric	EDE	$ 22.96	3.00%	3.00%	5.00%	3.67%	5.61%	72.00%	71.00%	66.67%	($0.00)	9.53%	17.03	3.04
Great Plains Energy Inc.	GXP	$ 23.40	6.19%	6.26%	6.50%	6.32%	5.61%	56.00%	60.00%	66.67%	$0.00	10.07%	14.96	2.67
Hawaiian Electric Industries, Inc.	HE	$ 25.84	3.70%	2.40%	5.50%	3.87%	5.61%	78.00%	72.00%	66.67%	$0.00	10.17%	14.61	2.60
IDACORP, Inc.	IDA	$ 50.04	4.00%	4.00%	2.00%	3.33%	5.61%	48.00%	52.00%	66.67%	$0.00	9.78%	16.01	2.85
Otter Tail Corporation	OTTR	$ 29.68	6.00%	6.00%	21.50%	11.17%	5.61%	89.00%	66.00%	66.67%	($0.00)	9.49%	17.17	3.06
Pinnacle West Capital Corp.	PNW	$ 56.93	4.45%	5.45%	5.00%	4.97%	5.61%	62.00%	62.00%	66.67%	($0.00)	10.02%	15.11	2.69
PNM Resources, Inc.	PNM	$ 22.76	7.32%	6.43%	12.00%	8.58%	5.61%	46.00%	51.00%	66.67%	$0.00	10.55%	13.51	2.41
Portland General Electric Company	POR	$ 31.12	6.30%	6.52%	3.50%	5.44%	5.61%	58.00%	59.00%	66.67%	$0.00	10.00%	15.18	2.71
Southern Company	SO	$ 44.45	4.61%	4.60%	4.50%	4.57%	5.61%	74.00%	70.00%	66.67%	$0.00	9.96%	15.32	2.73
Westar Energy, Inc.	WR	$ 32.41	4.31%	3.90%	6.00%	4.74%	5.61%	61.00%	54.00%	66.67%	$0.00	10.20%	14.52	2.59
											MIN	9.49%		
											MEAN	10.00%		
											MAX	10.55%		

Projected Annual Earnings per Share		[14]	[15]	[16]	[17]	[18]	[19]	[20]	[21]	[22]	[23]	[24]	[25]	[26]	[27]	[28]	[29]	[30]
Company	Ticker	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
American Electric Power Company, Inc.	AEP	$2.98	$3.10	$3.23	$3.36	$3.49	$3.64	$3.79	$3.97	$4.16	$4.37	$4.60	$4.86	$5.14	$5.42	$5.73	$6.05	$6.39
Cleco Corp.	CNL	$2.70	$2.89	$3.10	$3.32	$3.56	$3.82	$4.08	$4.35	$4.63	$4.91	$5.20	$5.49	$5.80	$6.13	$6.47	$6.83	$7.22
Empire District Electric	EDE	$1.32	$1.37	$1.42	$1.47	$1.52	$1.58	$1.64	$1.71	$1.79	$1.88	$1.98	$2.09	$2.21	$2.34	$2.47	$2.60	$2.75
Great Plains Energy Inc.	GXP	$1.35	$1.44	$1.53	$1.62	$1.72	$1.83	$1.95	$2.07	$2.19	$2.32	$2.45	$2.59	$2.73	$2.89	$3.05	$3.22	$3.40
Hawaiian Electric Industries, Inc.	HE	$1.68	$1.74	$1.81	$1.88	$1.96	$2.03	$2.12	$2.21	$2.31	$2.43	$2.56	$2.70	$2.86	$3.02	$3.18	$3.36	$3.55
IDACORP, Inc.	IDA	$3.37	$3.48	$3.60	$3.72	$3.84	$3.97	$4.12	$4.29	$4.48	$4.70	$4.94	$5.22	$5.51	$5.82	$6.15	$6.49	$6.86
Otter Tail Corporation	OTTR	$1.05	$1.17	$1.30	$1.44	$1.60	$1.78	$1.97	$2.15	$2.33	$2.50	$2.67	$2.82	$2.97	$3.14	$3.32	$3.50	$3.70
Pinnacle West Capital Corp.	PNW	$3.50	$3.67	$3.86	$4.05	$4.25	$4.46	$4.69	$4.93	$5.19	$5.47	$5.77	$6.09	$6.44	$6.80	$7.18	$7.58	$8.01
PNM Resources, Inc.	PNM	$1.31	$1.42	$1.54	$1.68	$1.82	$1.98	$2.14	$2.30	$2.46	$2.63	$2.79	$2.94	$3.11	$3.28	$3.47	$3.66	$3.87
Portland General Electric Company	POR	$1.87	$1.97	$2.08	$2.19	$2.31	$2.44	$2.57	$2.71	$2.86	$3.02	$3.19	$3.37	$3.56	$3.76	$3.97	$4.19	$4.42
Southern Company	SO	$2.67	$2.79	$2.92	$3.05	$3.19	$3.34	$3.50	$3.67	$3.86	$4.06	$4.28	$4.52	$4.77	$5.04	$5.32	$5.62	$5.94
Westar Energy, Inc.	WR	$2.15	$2.25	$2.36	$2.47	$2.59	$2.71	$2.84	$2.98	$3.14	$3.31	$3.49	$3.68	$3.89	$4.11	$4.34	$4.58	$4.84

Projected Annual Dividend Payout Ratio		[31]	[32]	[33]	[34]	[35]	[36]	[37]	[38]	[39]	[40]	[41]	[42]	[43]	[44]	[45]	[46]
Company	Ticker	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
American Electric Power Company, Inc.	AEP	64.00%	63.25%	62.50%	61.75%	61.00%	61.95%	62.89%	63.84%	64.78%	65.73%	66.67%	66.67%	66.67%	66.67%	66.67%	66.67%
Cleco Corp.	CNL	57.00%	57.00%	57.00%	57.00%	57.00%	58.61%	60.22%	61.84%	63.45%	65.06%	66.67%	66.67%	66.67%	66.67%	66.67%	66.67%
Empire District Electric	EDE	72.00%	71.75%	71.50%	71.25%	71.00%	70.28%	69.56%	68.84%	68.12%	67.39%	66.67%	66.67%	66.67%	66.67%	66.67%	66.67%
Great Plains Energy Inc.	GXP	56.00%	57.00%	58.00%	59.00%	60.00%	61.11%	62.22%	63.34%	64.45%	65.56%	66.67%	66.67%	66.67%	66.67%	66.67%	66.67%
Hawaiian Electric Industries, Inc.	HE	78.00%	76.50%	75.00%	73.50%	72.00%	71.11%	70.22%	69.34%	68.45%	67.56%	66.67%	66.67%	66.67%	66.67%	66.67%	66.67%
IDACORP, Inc.	IDA	48.00%	49.00%	50.00%	51.00%	52.00%	54.45%	56.89%	59.34%	61.78%	64.23%	66.67%	66.67%	66.67%	66.67%	66.67%	66.67%
Otter Tail Corporation	OTTR	89.00%	83.25%	77.50%	71.75%	66.00%	66.11%	66.22%	66.34%	66.45%	66.56%	66.67%	66.67%	66.67%	66.67%	66.67%	66.67%
Pinnacle West Capital Corp.	PNW	62.00%	62.00%	62.00%	62.00%	62.00%	62.78%	63.56%	64.34%	65.12%	65.89%	66.67%	66.67%	66.67%	66.67%	66.67%	66.67%
PNM Resources, Inc.	PNM	46.00%	47.25%	48.50%	49.75%	51.00%	53.61%	56.22%	58.84%	61.45%	64.06%	66.67%	66.67%	66.67%	66.67%	66.67%	66.67%
Portland General Electric Company	POR	58.00%	58.25%	58.50%	58.75%	59.00%	60.28%	61.56%	62.84%	64.12%	65.39%	66.67%	66.67%	66.67%	66.67%	66.67%	66.67%
Southern Company	SO	74.00%	73.00%	72.00%	71.00%	70.00%	69.45%	68.89%	68.34%	67.78%	67.23%	66.67%	66.67%	66.67%	66.67%	66.67%	66.67%
Westar Energy, Inc.	WR	61.00%	59.25%	57.50%	55.75%	54.00%	56.11%	58.22%	60.34%	62.45%	64.56%	66.67%	66.67%	66.67%	66.67%	66.67%	66.67%

Projected Annual Cash Flows		[47]	[48]	[49]	[50]	[51]	[52]	[53]	[54]	[55]	[56]	[57]	[58]	[59]	[60]	[61]	[62]
Company	Ticker	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	Terminal Value
American Electric Power Company, Inc.	AEP	$1.98	$2.04	$2.10	$2.16	$2.22	$2.35	$2.49	$2.65	$2.83	$3.03	$3.24	$3.42	$3.62	$3.82	$4.03	$96.08
Cleco Corp.	CNL	$1.65	$1.77	$1.89	$2.03	$2.18	$2.39	$2.62	$2.86	$3.12	$3.38	$3.66	$3.87	$4.08	$4.31	$4.56	$103.99
Empire District Electric	EDE	$0.99	$1.02	$1.05	$1.09	$1.12	$1.16	$1.19	$1.23	$1.28	$1.34	$1.40	$1.47	$1.56	$1.64	$1.74	$46.84
Great Plains Energy Inc.	GXP	$0.80	$0.87	$0.94	$1.02	$1.10	$1.19	$1.29	$1.39	$1.49	$1.61	$1.72	$1.82	$1.92	$2.03	$2.15	$50.85
Hawaiian Electric Industries, Inc.	HE	$1.36	$1.39	$1.41	$1.44	$1.46	$1.50	$1.55	$1.60	$1.66	$1.73	$1.80	$1.90	$2.01	$2.12	$2.24	$51.88
IDACORP, Inc.	IDA	$1.67	$1.76	$1.86	$1.96	$2.06	$2.24	$2.44	$2.66	$2.90	$3.17	$3.48	$3.67	$3.88	$4.10	$4.33	$109.73
Otter Tail Corporation	OTTR	$1.04	$1.08	$1.12	$1.15	$1.18	$1.30	$1.42	$1.54	$1.66	$1.77	$1.88	$1.98	$2.09	$2.21	$2.34	$63.51
Pinnacle West Capital Corp.	PNW	$2.28	$2.39	$2.51	$2.63	$2.77	$2.94	$3.13	$3.34	$3.56	$3.80	$4.06	$4.29	$4.53	$4.79	$5.05	$120.95
PNM Resources, Inc.	PNM	$0.65	$0.73	$0.81	$0.91	$1.01	$1.15	$1.29	$1.45	$1.61	$1.78	$1.96	$2.07	$2.19	$2.31	$2.44	$52.22
Portland General Electric Company	POR	$1.14	$1.21	$1.28	$1.36	$1.44	$1.55	$1.67	$1.80	$1.94	$2.09	$2.25	$2.37	$2.50	$2.64	$2.79	$67.19
Southern Company	SO	$2.07	$2.13	$2.20	$2.27	$2.34	$2.43	$2.53	$2.63	$2.75	$2.88	$3.01	$3.18	$3.36	$3.55	$3.75	$90.94
Westar Energy, Inc.	WR	$1.37	$1.40	$1.42	$1.44	$1.46	$1.59	$1.74	$1.89	$2.06	$2.25	$2.46	$2.59	$2.74	$2.89	$3.05	$70.23

Projected Annual Data Investor Cash Flows		[63]	[64]	[65]	[66]	[67]	[68]	[69]	[70]	[71]	[72]	[73]	[74]	[75]	[76]	[77]	[78]	[79]
Company	Ticker	Initial Outflow	7/31/13	12/31/13	6/30/14	6/30/15	6/30/16	6/30/17	6/30/18	6/30/19	6/30/20	6/30/21	6/30/22	6/30/23	6/30/24	6/30/25	6/30/26	6/30/27
American Electric Power Company, Inc.	AEP	($45.56)	$0.00	$0.83	$2.02	$2.10	$2.16	$2.22	$2.35	$2.49	$2.65	$2.83	$3.03	$3.24	$3.42	$3.62	$3.82	$100.11
Cleco Corp.	CNL	($47.25)	$0.00	$0.69	$1.71	$1.89	$2.03	$2.18	$2.39	$2.62	$2.86	$3.12	$3.38	$3.66	$3.87	$4.08	$4.31	$108.54
Empire District Electric	EDE	($22.96)	$0.00	$0.41	$1.00	$1.05	$1.09	$1.12	$1.16	$1.19	$1.23	$1.28	$1.34	$1.40	$1.47	$1.56	$1.64	$48.58
Great Plains Energy Inc.	GXP	($23.40)	$0.00	$0.34	$0.83	$0.94	$1.02	$1.10	$1.19	$1.29	$1.39	$1.49	$1.61	$1.72	$1.82	$1.92	$2.03	$52.99
Hawaiian Electric Industries, Inc.	HE	($25.83)	$0.00	$0.57	$1.39	$1.41	$1.44	$1.46	$1.50	$1.55	$1.60	$1.66	$1.73	$1.80	$1.90	$2.01	$2.12	$54.12
IDACORP, Inc.	IDA	($50.04)	$0.00	$0.70	$1.70	$1.86	$1.96	$2.06	$2.24	$2.44	$2.66	$2.90	$3.17	$3.48	$3.67	$3.88	$4.10	$114.06
Otter Tail Corporation	OTTR	($29.68)	$0.00	$0.44	$1.10	$1.12	$1.15	$1.18	$1.30	$1.42	$1.54	$1.66	$1.77	$1.88	$1.98	$2.09	$2.21	$65.84
Pinnacle West Capital Corp.	PNW	($56.93)	$0.00	$0.95	$2.33	$2.51	$2.63	$2.77	$2.94	$3.13	$3.34	$3.56	$3.80	$4.06	$4.29	$4.53	$4.79	$126.01
PNM Resources, Inc.	PNM	($22.76)	$0.00	$0.27	$0.68	$0.81	$0.91	$1.01	$1.15	$1.29	$1.45	$1.61	$1.78	$1.96	$2.07	$2.19	$2.31	$54.66
Portland General Electric Company	POR	($31.12)	$0.00	$0.48	$1.17	$1.28	$1.36	$1.44	$1.55	$1.67	$1.80	$1.94	$2.09	$2.25	$2.37	$2.50	$2.64	$69.98
Southern Company	SO	($44.45)	$0.00	$0.87	$2.11	$2.20	$2.27	$2.34	$2.43	$2.53	$2.63	$2.75	$2.88	$3.01	$3.18	$3.36	$3.55	$94.69
Westar Energy, Inc.	WR	($32.41)	$0.00	$0.58	$1.41	$1.42	$1.44	$1.46	$1.59	$1.74	$1.89	$2.06	$2.25	$2.46	$2.59	$2.74	$2.89	$73.28

Multi-Stage Growth Discounted Cash Flow Model
Mr. Hevert's Proxy Group
90-Day Average Stock Price

Inputs		[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]	[11]	[12]	[13]
		Stock	EPS Growth Rate Estimates				Long-Term	Payout Ratio			Iterative Solution		Terminal	Terminal
Company	Ticker	Price	Zacks	First Call	Value Line	Average	Growth	2013	2017	2023	Proof	IRR	P/E Ratio	PEG Ratio
American Electric Power Company, Inc.	AEP	$ 47.54	3.87%	3.81%	4.50%	4.06%	5.61%	64.00%	61.00%	66.67%	$0.00	9.86%	15.70	2.80
Cleco Corp.	CNL	$ 47.02	8.00%	8.00%	5.50%	7.17%	5.61%	57.00%	57.00%	66.67%	$0.00	10.26%	14.34	2.56
Empire District Electric	EDE	$ 22.59	3.00%	3.00%	5.00%	3.67%	5.61%	72.00%	71.00%	66.67%	$0.00	9.59%	16.74	2.98
Great Plains Energy Inc.	GXP	$ 23.36	6.19%	6.26%	6.50%	6.32%	5.61%	56.00%	60.00%	66.67%	($0.00)	10.07%	14.94	2.66
Hawaiian Electric Industries, Inc.	HE	$ 26.57	3.70%	2.40%	5.50%	3.87%	5.61%	78.00%	72.00%	66.67%	$0.00	10.04%	15.05	2.68
IDACORP, Inc.	IDA	$ 48.80	4.00%	4.00%	2.00%	3.33%	5.61%	48.00%	52.00%	66.67%	($0.00)	9.88%	15.62	2.78
Otter Tail Corporation	OTTR	$ 29.77	6.00%	6.00%	21.50%	11.17%	5.61%	89.00%	66.00%	66.67%	$0.00	9.48%	17.22	3.07
Pinnacle West Capital Corp.	PNW	$ 58.02	4.45%	5.45%	5.00%	4.97%	5.61%	62.00%	62.00%	66.67%	$0.00	9.94%	15.40	2.74
PNM Resources, Inc.	PNM	$ 22.91	7.32%	6.43%	12.00%	8.58%	5.61%	46.00%	51.00%	66.67%	($0.00)	10.51%	13.59	2.42
Portland General Electric Company	POR	$ 31.15	6.30%	6.52%	3.50%	5.44%	5.61%	58.00%	59.00%	66.67%	($0.00)	10.00%	15.20	2.71
Southern Company	SO	$ 45.71	4.61%	4.60%	4.50%	4.57%	5.61%	74.00%	70.00%	66.67%	($0.00)	9.84%	15.77	2.81
Westar Energy, Inc.	WR	$ 32.84	4.31%	3.90%	6.00%	4.74%	5.61%	61.00%	54.00%	66.67%	$0.00	10.14%	14.71	2.62
											MIN	9.48%		
											MEAN	9.97%		
											MAX	10.51%		

Projected Annual Earnings per Share		[14]	[15]	[16]	[17]	[18]	[19]	[20]	[21]	[22]	[23]	[24]	[25]	[26]	[27]	[28]	[29]	[30]
Company	Ticker	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
American Electric Power Company, Inc.	AEP	$2.98	$3.10	$3.23	$3.36	$3.49	$3.64	$3.79	$3.97	$4.16	$4.37	$4.60	$4.86	$5.14	$5.42	$5.73	$6.05	$6.39
Cleco Corp.	CNL	$2.70	$2.89	$3.10	$3.32	$3.56	$3.82	$4.08	$4.35	$4.63	$4.91	$5.20	$5.49	$5.80	$6.13	$6.47	$6.83	$7.22
Empire District Electric	EDE	$1.32	$1.37	$1.42	$1.47	$1.52	$1.58	$1.64	$1.71	$1.79	$1.88	$1.98	$2.09	$2.21	$2.34	$2.47	$2.60	$2.75
Great Plains Energy Inc.	GXP	$1.35	$1.44	$1.53	$1.62	$1.72	$1.83	$1.95	$2.07	$2.19	$2.32	$2.45	$2.59	$2.73	$2.89	$3.05	$3.22	$3.40
Hawaiian Electric Industries, Inc.	HE	$1.68	$1.74	$1.81	$1.88	$1.96	$2.03	$2.12	$2.21	$2.31	$2.43	$2.56	$2.70	$2.86	$3.02	$3.18	$3.36	$3.55
IDACORP, Inc.	IDA	$3.37	$3.48	$3.60	$3.72	$3.84	$3.97	$4.12	$4.29	$4.48	$4.70	$4.94	$5.22	$5.51	$5.82	$6.15	$6.49	$6.86
Otter Tail Corporation	OTTR	$1.05	$1.17	$1.30	$1.44	$1.60	$1.78	$1.97	$2.15	$2.33	$2.50	$2.67	$2.82	$2.97	$3.14	$3.32	$3.50	$3.70
Pinnacle West Capital Corp.	PNW	$3.50	$3.67	$3.86	$4.05	$4.25	$4.46	$4.69	$4.93	$5.19	$5.47	$5.77	$6.09	$6.44	$6.80	$7.18	$7.58	$8.01
PNM Resources, Inc.	PNM	$1.31	$1.42	$1.54	$1.68	$1.82	$1.98	$2.14	$2.30	$2.46	$2.63	$2.79	$2.94	$3.11	$3.28	$3.47	$3.66	$3.87
Portland General Electric Company	POR	$1.87	$1.97	$2.08	$2.19	$2.31	$2.44	$2.57	$2.71	$2.86	$3.02	$3.19	$3.37	$3.56	$3.76	$3.97	$4.19	$4.42
Southern Company	SO	$2.67	$2.79	$2.92	$3.05	$3.19	$3.34	$3.50	$3.67	$3.86	$4.06	$4.28	$4.52	$4.77	$5.04	$5.32	$5.62	$5.94
Westar Energy, Inc.	WR	$2.15	$2.25	$2.36	$2.47	$2.59	$2.71	$2.84	$2.98	$3.14	$3.31	$3.49	$3.68	$3.89	$4.11	$4.34	$4.58	$4.84

Projected Annual Dividend Payout Ratio		[31]	[32]	[33]	[34]	[35]	[36]	[37]	[38]	[39]	[40]	[41]	[42]	[43]	[44]	[45]	[46]
Company	Ticker	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
American Electric Power Company, Inc.	AEP	64.00%	63.25%	62.50%	61.75%	61.00%	61.95%	62.89%	63.84%	64.78%	65.73%	66.67%	66.67%	66.67%	66.67%	66.67%	66.67%
Cleco Corp.	CNL	57.00%	57.00%	57.00%	57.00%	57.00%	58.61%	60.22%	61.84%	63.45%	65.06%	66.67%	66.67%	66.67%	66.67%	66.67%	66.67%
Empire District Electric	EDE	72.00%	71.75%	71.50%	71.25%	71.00%	70.28%	69.56%	68.84%	68.12%	67.39%	66.67%	66.67%	66.67%	66.67%	66.67%	66.67%
Great Plains Energy Inc.	GXP	56.00%	57.00%	58.00%	59.00%	60.00%	61.11%	62.22%	63.34%	64.45%	65.56%	66.67%	66.67%	66.67%	66.67%	66.67%	66.67%
Hawaiian Electric Industries, Inc.	HE	78.00%	76.50%	75.00%	73.50%	72.00%	71.11%	70.22%	69.34%	68.45%	67.56%	66.67%	66.67%	66.67%	66.67%	66.67%	66.67%
IDACORP, Inc.	IDA	48.00%	49.00%	50.00%	51.00%	52.00%	54.45%	56.89%	59.34%	61.78%	64.23%	66.67%	66.67%	66.67%	66.67%	66.67%	66.67%
Otter Tail Corporation	OTTR	89.00%	83.25%	77.50%	71.75%	66.00%	66.11%	66.22%	66.34%	66.45%	66.56%	66.67%	66.67%	66.67%	66.67%	66.67%	66.67%
Pinnacle West Capital Corp.	PNW	62.00%	62.00%	62.00%	62.00%	62.00%	62.78%	63.56%	64.34%	65.12%	65.89%	66.67%	66.67%	66.67%	66.67%	66.67%	66.67%
PNM Resources, Inc.	PNM	46.00%	47.25%	48.50%	49.75%	51.00%	53.61%	56.22%	58.84%	61.45%	64.06%	66.67%	66.67%	66.67%	66.67%	66.67%	66.67%
Portland General Electric Company	POR	58.00%	58.25%	58.50%	58.75%	59.00%	60.28%	61.56%	62.84%	64.12%	65.39%	66.67%	66.67%	66.67%	66.67%	66.67%	66.67%
Southern Company	SO	74.00%	73.00%	72.00%	71.00%	70.00%	69.45%	68.89%	68.34%	67.78%	67.23%	66.67%	66.67%	66.67%	66.67%	66.67%	66.67%
Westar Energy, Inc.	WR	61.00%	59.25%	57.50%	55.75%	54.00%	56.11%	58.22%	60.34%	62.45%	64.56%	66.67%	66.67%	66.67%	66.67%	66.67%	66.67%

Projected Annual Cash Flows		[47]	[48]	[49]	[50]	[51]	[52]	[53]	[54]	[55]	[56]	[57]	[58]	[59]	[60]	[61]	[62]
Company	Ticker	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	Terminal Value
American Electric Power Company, Inc.	AEP	$1.98	$2.04	$2.10	$2.16	$2.22	$2.35	$2.49	$2.65	$2.83	$3.03	$3.24	$3.42	$3.62	$3.82	$4.03	$100.31
Cleco Corp.	CNL	$1.65	$1.77	$1.89	$2.03	$2.18	$2.39	$2.62	$2.86	$3.12	$3.38	$3.66	$3.87	$4.08	$4.31	$4.56	$103.50
Empire District Electric	EDE	$0.99	$1.02	$1.05	$1.09	$1.12	$1.16	$1.19	$1.23	$1.28	$1.34	$1.40	$1.47	$1.56	$1.64	$1.74	$46.04
Great Plains Energy Inc.	GXP	$0.80	$0.87	$0.94	$1.02	$1.10	$1.19	$1.29	$1.39	$1.49	$1.61	$1.72	$1.82	$1.92	$2.03	$2.15	$50.77
Hawaiian Electric Industries, Inc.	HE	$1.36	$1.39	$1.41	$1.44	$1.46	$1.50	$1.55	$1.60	$1.66	$1.73	$1.80	$1.90	$2.01	$2.12	$2.24	$53.44
IDACORP, Inc.	IDA	$1.67	$1.76	$1.86	$1.96	$2.06	$2.24	$2.44	$2.66	$2.90	$3.17	$3.48	$3.67	$3.88	$4.10	$4.33	$107.07
Otter Tail Corporation	OTTR	$1.04	$1.08	$1.12	$1.15	$1.18	$1.30	$1.42	$1.54	$1.66	$1.77	$1.88	$1.98	$2.09	$2.21	$2.34	$63.68
Pinnacle West Capital Corp.	PNW	$2.28	$2.39	$2.51	$2.63	$2.77	$2.94	$3.13	$3.34	$3.56	$3.80	$4.06	$4.29	$4.53	$4.79	$5.05	$123.29
PNM Resources, Inc.	PNM	$0.65	$0.73	$0.81	$0.91	$1.01	$1.15	$1.29	$1.45	$1.61	$1.78	$1.96	$2.07	$2.19	$2.31	$2.44	$52.54
Portland General Electric Company	POR	$1.14	$1.21	$1.28	$1.36	$1.44	$1.55	$1.67	$1.80	$1.94	$2.09	$2.25	$2.37	$2.50	$2.64	$2.79	$67.25
Southern Company	SO	$2.07	$2.13	$2.20	$2.27	$2.34	$2.43	$2.53	$2.63	$2.75	$2.88	$3.01	$3.18	$3.36	$3.55	$3.75	$93.62
Westar Energy, Inc.	WR	$1.37	$1.40	$1.42	$1.44	$1.46	$1.59	$1.74	$1.89	$2.06	$2.25	$2.46	$2.59	$2.74	$2.89	$3.05	$71.17

Projected Annual Data Investor Cash Flows		[63]	[64]	[65]	[66]	[67]	[68]	[69]	[70]	[71]	[72]	[73]	[74]	[75]	[76]	[77]	[78]	[79]
Company	Ticker	Initial Outflow	7/31/13	12/31/13	6/30/14	6/30/15	6/30/16	6/30/17	6/30/18	6/30/19	6/30/20	6/30/21	6/30/22	6/30/23	6/30/24	6/30/25	6/30/26	6/30/27
American Electric Power Company, Inc.	AEP	($47.53)	$0.00	$0.83	$2.02	$2.10	$2.16	$2.22	$2.35	$2.49	$2.65	$2.83	$3.03	$3.24	$3.42	$3.62	$3.82	$104.34
Cleco Corp.	CNL	($47.02)	$0.00	$0.69	$1.71	$1.89	$2.03	$2.18	$2.39	$2.62	$2.86	$3.12	$3.38	$3.66	$3.87	$4.08	$4.31	$108.06
Empire District Electric	EDE	($22.59)	$0.00	$0.41	$1.00	$1.05	$1.09	$1.12	$1.16	$1.19	$1.23	$1.28	$1.34	$1.40	$1.47	$1.56	$1.64	$47.78
Great Plains Energy Inc.	GXP	($23.36)	$0.00	$0.34	$0.83	$0.94	$1.02	$1.10	$1.19	$1.29	$1.39	$1.49	$1.61	$1.72	$1.82	$1.92	$2.03	$52.91
Hawaiian Electric Industries, Inc.	HE	($26.57)	$0.00	$0.57	$1.39	$1.41	$1.44	$1.46	$1.50	$1.55	$1.60	$1.66	$1.73	$1.80	$1.90	$2.01	$2.12	$55.68
IDACORP, Inc.	IDA	($48.80)	$0.00	$0.70	$1.70	$1.86	$1.96	$2.06	$2.24	$2.44	$2.66	$2.90	$3.17	$3.48	$3.67	$3.88	$4.10	$111.40
Otter Tail Corporation	OTTR	($29.77)	$0.00	$0.44	$1.10	$1.12	$1.15	$1.18	$1.30	$1.42	$1.54	$1.66	$1.77	$1.88	$1.98	$2.09	$2.21	$66.02
Pinnacle West Capital Corp.	PNW	($58.02)	$0.00	$0.95	$2.33	$2.51	$2.63	$2.77	$2.94	$3.13	$3.34	$3.56	$3.80	$4.06	$4.29	$4.53	$4.79	$128.34
PNM Resources, Inc.	PNM	($22.91)	$0.00	$0.27	$0.68	$0.81	$0.91	$1.01	$1.15	$1.29	$1.45	$1.61	$1.78	$1.96	$2.07	$2.19	$2.31	$54.98
Portland General Electric Company	POR	($31.15)	$0.00	$0.48	$1.17	$1.28	$1.36	$1.44	$1.55	$1.67	$1.80	$1.94	$2.09	$2.25	$2.37	$2.50	$2.64	$70.04
Southern Company	SO	($45.71)	$0.00	$0.87	$2.11	$2.20	$2.27	$2.34	$2.43	$2.53	$2.63	$2.75	$2.88	$3.01	$3.18	$3.36	$3.55	$97.37
Westar Energy, Inc.	WR	($32.84)	$0.00	$0.58	$1.41	$1.42	$1.44	$1.46	$1.59	$1.74	$1.89	$2.06	$2.25	$2.46	$2.59	$2.74	$2.89	$74.22

Multi-Stage Growth Discounted Cash Flow Model
Mr. Hevert's Proxy Group
180-Day Average Stock Price

Inputs		[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]	[11]	[12]	[13]
		Stock	EPS Growth Rate Estimates				Long-Term	Payout Ratio			Iterative Solution		Terminal	Terminal
Company	Ticker	Price	Zacks	First Call	Value Line	Average	Growth	2013	2017	2023	Proof	IRR	P/E Ratio	PEG Ratio
American Electric Power Company, Inc.	AEP	$ 45.91	3.87%	3.81%	4.50%	4.06%	5.61%	64.00%	61.00%	66.67%	$0.00	10.01%	15.16	2.70
Cleco Corp.	CNL	$ 44.51	8.00%	8.00%	5.50%	7.17%	5.61%	57.00%	57.00%	66.67%	$0.00	10.52%	13.59	2.42
Empire District Electric	EDE	$ 21.74	3.00%	3.00%	5.00%	3.67%	5.61%	72.00%	71.00%	66.67%	$0.00	9.76%	16.06	2.87
Great Plains Energy Inc.	GXP	$ 22.25	6.19%	6.26%	6.50%	6.32%	5.61%	56.00%	60.00%	66.67%	($0.00)	10.30%	14.23	2.54
Hawaiian Electric Industries, Inc.	HE	$ 26.33	3.70%	2.40%	5.50%	3.87%	5.61%	78.00%	72.00%	66.67%	($0.00)	10.08%	14.90	2.66
IDACORP, Inc.	IDA	$ 46.77	4.00%	4.00%	2.00%	3.33%	5.61%	48.00%	52.00%	66.67%	$0.00	10.06%	14.98	2.67
Otter Tail Corporation	OTTR	$ 28.16	6.00%	6.00%	21.50%	11.17%	5.61%	89.00%	66.00%	66.67%	($0.00)	9.70%	16.28	2.90
Pinnacle West Capital Corp.	PNW	$ 55.53	4.45%	5.45%	5.00%	4.97%	5.61%	62.00%	62.00%	66.67%	$0.00	10.14%	14.73	2.63
PNM Resources, Inc.	PNM	$ 22.12	7.32%	6.43%	12.00%	8.58%	5.61%	46.00%	51.00%	66.67%	($0.00)	10.68%	13.16	2.34
Portland General Electric Company	POR	$ 29.59	6.30%	6.52%	3.50%	5.44%	5.61%	58.00%	59.00%	66.67%	$0.00	10.23%	14.44	2.57
Southern Company	SO	$ 44.78	4.61%	4.60%	4.50%	4.57%	5.61%	74.00%	70.00%	66.67%	$0.00	9.93%	15.44	2.75
Westar Energy, Inc.	WR	$ 31.32	4.31%	3.90%	6.00%	4.74%	5.61%	61.00%	54.00%	66.67%	$0.00	10.36%	14.03	2.50
											MIN	9.70%		
											MEAN	10.15%		
											MAX	10.68%		

Projected Annual Earnings per Share

Company	Ticker	[14] 2012	[15] 2013	[16] 2014	[17] 2015	[18] 2016	[19] 2017	[20] 2018	[21] 2019	[22] 2020	[23] 2021	[24] 2022	[25] 2023	[26] 2024	[27] 2025	[28] 2026	[29] 2027	[30] 2028
American Electric Power Company, Inc.	AEP	$2.98	$3.10	$3.23	$3.36	$3.49	$3.64	$3.79	$3.97	$4.16	$4.37	$4.60	$4.86	$5.14	$5.42	$5.73	$6.05	$6.39
Cleco Corp.	CNL	$2.70	$2.89	$3.10	$3.32	$3.56	$3.82	$4.08	$4.35	$4.63	$4.91	$5.20	$5.49	$5.80	$6.13	$6.47	$6.83	$7.22
Empire District Electric	EDE	$1.32	$1.37	$1.42	$1.47	$1.52	$1.58	$1.64	$1.71	$1.79	$1.88	$1.98	$2.09	$2.21	$2.34	$2.47	$2.60	$2.75
Great Plains Energy Inc.	GXP	$1.35	$1.44	$1.53	$1.62	$1.72	$1.83	$1.95	$2.07	$2.19	$2.32	$2.45	$2.59	$2.73	$2.89	$3.05	$3.22	$3.40
Hawaiian Electric Industries, Inc.	HE	$1.68	$1.74	$1.81	$1.88	$1.96	$2.03	$2.12	$2.21	$2.31	$2.43	$2.56	$2.70	$2.86	$3.02	$3.18	$3.36	$3.55
IDACORP, Inc.	IDA	$3.37	$3.48	$3.60	$3.72	$3.84	$3.97	$4.12	$4.29	$4.48	$4.70	$4.94	$5.22	$5.51	$5.82	$6.15	$6.49	$6.86
Otter Tail Corporation	OTTR	$1.05	$1.17	$1.30	$1.44	$1.60	$1.78	$1.97	$2.15	$2.33	$2.50	$2.67	$2.82	$2.97	$3.14	$3.32	$3.50	$3.70
Pinnacle West Capital Corp.	PNW	$3.50	$3.67	$3.86	$4.05	$4.25	$4.46	$4.69	$4.93	$5.19	$5.47	$5.77	$6.09	$6.44	$6.80	$7.18	$7.58	$8.01
PNM Resources, Inc.	PNM	$1.31	$1.42	$1.54	$1.66	$1.82	$1.98	$2.14	$2.30	$2.46	$2.63	$2.79	$2.94	$3.11	$3.28	$3.47	$3.66	$3.87
Portland General Electric Company	POR	$1.87	$1.97	$2.08	$2.19	$2.31	$2.44	$2.57	$2.71	$2.86	$3.02	$3.19	$3.37	$3.56	$3.76	$3.97	$4.19	$4.42
Southern Company	SO	$2.67	$2.79	$2.92	$3.05	$3.19	$3.34	$3.50	$3.67	$3.86	$4.06	$4.28	$4.52	$4.77	$5.04	$5.32	$5.62	$5.94
Westar Energy, Inc.	WR	$2.15	$2.25	$2.36	$2.47	$2.59	$2.71	$2.84	$2.98	$3.14	$3.31	$3.49	$3.68	$3.89	$4.11	$4.34	$4.58	$4.84

Projected Annual Dividend Payout Ratio

Company	Ticker	[31] 2013	[32] 2014	[33] 2015	[34] 2016	[35] 2017	[36] 2018	[37] 2019	[38] 2020	[39] 2021	[40] 2022	[41] 2023	[42] 2024	[43] 2025	[44] 2026	[45] 2027	[46] 2028
American Electric Power Company, Inc.	AEP	64.00%	63.25%	62.50%	61.75%	61.00%	61.95%	62.89%	63.84%	64.78%	65.73%	66.67%	66.67%	66.67%	66.67%	66.67%	66.67%
Cleco Corp.	CNL	57.00%	57.00%	57.00%	57.00%	57.00%	58.61%	60.22%	61.84%	63.45%	65.06%	66.67%	66.67%	66.67%	66.67%	66.67%	66.67%
Empire District Electric	EDE	72.00%	71.75%	71.50%	71.25%	71.00%	70.28%	69.56%	68.84%	68.12%	67.39%	66.67%	66.67%	66.67%	66.67%	66.67%	66.67%
Great Plains Energy Inc.	GXP	56.00%	57.00%	58.00%	59.00%	60.00%	61.11%	62.22%	63.34%	64.45%	65.56%	66.67%	66.67%	66.67%	66.67%	66.67%	66.67%
Hawaiian Electric Industries, Inc.	HE	78.00%	76.50%	75.00%	73.50%	72.00%	71.11%	70.22%	69.34%	68.45%	67.56%	66.67%	66.67%	66.67%	66.67%	66.67%	66.67%
IDACORP, Inc.	IDA	48.00%	49.00%	50.00%	51.00%	52.00%	54.45%	56.89%	59.34%	61.78%	64.23%	66.67%	66.67%	66.67%	66.67%	66.67%	66.67%
Otter Tail Corporation	OTTR	89.00%	83.25%	77.50%	71.75%	66.00%	66.11%	66.22%	66.34%	66.45%	66.56%	66.67%	66.67%	66.67%	66.67%	66.67%	66.67%
Pinnacle West Capital Corp.	PNW	62.00%	62.00%	62.00%	62.00%	62.00%	62.78%	63.56%	64.34%	65.12%	65.89%	66.67%	66.67%	66.67%	66.67%	66.67%	66.67%
PNM Resources, Inc.	PNM	46.00%	47.25%	48.50%	49.75%	51.00%	53.61%	56.22%	58.84%	61.45%	64.06%	66.67%	66.67%	66.67%	66.67%	66.67%	66.67%
Portland General Electric Company	POR	58.00%	58.25%	58.50%	58.75%	59.00%	60.28%	61.56%	62.84%	64.12%	65.39%	66.67%	66.67%	66.67%	66.67%	66.67%	66.67%
Southern Company	SO	74.00%	73.00%	72.00%	71.00%	70.00%	69.45%	68.89%	68.34%	67.78%	67.23%	66.67%	66.67%	66.67%	66.67%	66.67%	66.67%
Westar Energy, Inc.	WR	61.00%	59.25%	57.50%	55.75%	54.00%	56.11%	58.22%	60.34%	62.45%	64.56%	66.67%	66.67%	66.67%	66.67%	66.67%	66.67%

Projected Annual Cash Flows

Company	Ticker	[47] 2013	[48] 2014	[49] 2015	[50] 2016	[51] 2017	[52] 2018	[53] 2019	[54] 2020	[55] 2021	[56] 2022	[57] 2023	[58] 2024	[59] 2025	[60] 2026	[61] 2027	[62] Terminal Value
American Electric Power Company, Inc.	AEP	$1.98	$2.04	$2.10	$2.16	$2.22	$2.35	$2.49	$2.65	$2.83	$3.03	$3.24	$3.42	$3.62	$3.82	$4.03	$96.82
Cleco Corp.	CNL	$1.65	$1.77	$1.89	$2.03	$2.18	$2.39	$2.62	$2.86	$3.12	$3.38	$3.66	$3.87	$4.08	$4.31	$4.56	$98.08
Empire District Electric	EDE	$0.99	$1.02	$1.05	$1.09	$1.12	$1.16	$1.19	$1.23	$1.28	$1.34	$1.40	$1.47	$1.56	$1.64	$1.74	$44.24
Great Plains Energy Inc.	GXP	$0.80	$0.87	$0.94	$1.02	$1.10	$1.19	$1.29	$1.39	$1.49	$1.61	$1.72	$1.82	$1.92	$2.03	$2.15	$48.37
Hawaiian Electric Industries, Inc.	HE	$1.36	$1.39	$1.41	$1.44	$1.46	$1.50	$1.55	$1.60	$1.66	$1.73	$1.80	$1.90	$2.01	$2.12	$2.24	$52.93
IDACORP, Inc.	IDA	$1.67	$1.76	$1.86	$1.96	$2.06	$2.24	$2.44	$2.66	$2.90	$3.17	$3.48	$3.67	$3.88	$4.10	$4.33	$102.71
Otter Tail Corporation	OTTR	$1.04	$1.08	$1.12	$1.15	$1.18	$1.30	$1.42	$1.54	$1.66	$1.77	$1.88	$1.98	$2.09	$2.21	$2.34	$60.23
Pinnacle West Capital Corp.	PNW	$2.28	$2.39	$2.51	$2.63	$2.77	$2.94	$3.13	$3.34	$3.56	$3.80	$4.06	$4.29	$4.53	$4.79	$5.05	$117.94
PNM Resources, Inc.	PNM	$0.65	$0.73	$0.81	$0.91	$1.01	$1.15	$1.29	$1.45	$1.61	$1.78	$1.96	$2.07	$2.19	$2.31	$2.44	$50.85
Portland General Electric Company	POR	$1.14	$1.21	$1.28	$1.36	$1.44	$1.55	$1.67	$1.80	$1.94	$2.09	$2.25	$2.37	$2.50	$2.64	$2.79	$63.90
Southern Company	SO	$2.07	$2.13	$2.20	$2.27	$2.34	$2.43	$2.53	$2.63	$2.75	$2.88	$3.01	$3.18	$3.36	$3.55	$3.75	$91.65
Westar Energy, Inc.	WR	$1.37	$1.40	$1.42	$1.44	$1.46	$1.59	$1.74	$1.89	$2.06	$2.25	$2.46	$2.59	$2.74	$2.89	$3.05	$67.89

Projected Annual Data
Investor Cash Flows

Company	Ticker	[63] Initial Outflow	[64] 7/31/13	[65] 12/31/13	[66] 6/30/14	[67] 6/30/15	[68] 6/30/16	[69] 6/30/17	[70] 6/30/18	[71] 6/30/19	[72] 6/30/20	[73] 6/30/21	[74] 6/30/22	[75] 6/30/23	[76] 6/30/24	[77] 6/30/25	[78] 6/30/26	[79] 6/30/27
American Electric Power Company, Inc.	AEP	($45.91)	$0.00	$0.83	$2.02	$2.10	$2.16	$2.22	$2.35	$2.49	$2.65	$2.83	$3.03	$3.24	$3.42	$3.62	$3.82	$100.86
Cleco Corp.	CNL	($44.51)	$0.00	$0.69	$1.71	$1.89	$2.03	$2.18	$2.39	$2.62	$2.86	$3.12	$3.38	$3.66	$3.87	$4.08	$4.31	$102.64
Empire District Electric	EDE	($21.74)	$0.00	$0.41	$1.00	$1.05	$1.09	$1.12	$1.16	$1.19	$1.23	$1.28	$1.34	$1.40	$1.47	$1.56	$1.64	$45.97
Great Plains Energy Inc.	GXP	($22.25)	$0.00	$0.34	$0.83	$0.94	$1.02	$1.10	$1.19	$1.29	$1.39	$1.49	$1.61	$1.72	$1.82	$1.92	$2.03	$50.51
Hawaiian Electric Industries, Inc.	HE	($26.33)	$0.00	$0.57	$1.39	$1.41	$1.44	$1.46	$1.50	$1.55	$1.60	$1.66	$1.73	$1.80	$1.90	$2.01	$2.12	$55.17
IDACORP, Inc.	IDA	($46.77)	$0.00	$0.70	$1.70	$1.86	$1.96	$2.06	$2.24	$2.44	$2.66	$2.90	$3.17	$3.48	$3.67	$3.88	$4.10	$107.03
Otter Tail Corporation	OTTR	($28.16)	$0.00	$0.44	$1.10	$1.12	$1.15	$1.18	$1.30	$1.42	$1.54	$1.66	$1.77	$1.88	$1.98	$2.09	$2.21	$62.56
Pinnacle West Capital Corp.	PNW	($55.53)	$0.00	$0.95	$2.33	$2.51	$2.63	$2.77	$2.94	$3.13	$3.34	$3.56	$3.80	$4.06	$4.29	$4.53	$4.79	$123.00
PNM Resources, Inc.	PNM	($22.12)	$0.00	$0.27	$0.68	$0.81	$0.91	$1.01	$1.15	$1.29	$1.45	$1.61	$1.78	$1.96	$2.07	$2.19	$2.31	$53.29
Portland General Electric Company	POR	($29.59)	$0.00	$0.48	$1.17	$1.28	$1.36	$1.44	$1.55	$1.67	$1.80	$1.94	$2.09	$2.25	$2.37	$2.50	$2.64	$66.69
Southern Company	SO	($44.78)	$0.00	$0.87	$2.11	$2.20	$2.27	$2.34	$2.43	$2.53	$2.63	$2.75	$2.88	$3.01	$3.18	$3.36	$3.55	$95.40
Westar Energy, Inc.	WR	($31.32)	$0.00	$0.58	$1.41	$1.42	$1.44	$1.46	$1.59	$1.74	$1.89	$2.06	$2.25	$2.46	$2.59	$2.74	$2.89	$70.94

Multi-Stage DCF Notes:

[1] Source: Bloomberg; based on 30-, 90-, and 180-day historical average
[2] Source: Zacks
[3] Source: Yahoo! Finance
[4] Source: Value Line
[5] Equals average Columns [2], [3], [4]
[6] Source: Federal Reserve, Bureau of Economic Analysis
[7] Source: Value Line
[8] Source: Value Line
[9] Source: Bloomberg Professional
[10] Equals Column [1] + Column [63]
[11] Equals result of Excel Solver function; goal: Column [10] equals $0.00
[12] Equals Column [62] / Column [30]
[13] Equals Column [12] / (Column [6] x 100)
[14] Source: Value Line
[15] Equals Column [14] x (1 + Column [5])
[16] Equals Column [15] x (1 + Column [5])
[17] Equals Column [16] x (1 + Column [5])
[18] Equals Column [17] x (1 + Column [5])
[19] Equals Column [18] x (1 + Column [5])
[20] Equals (1 + (Column [5] + (((Column [6] – Column [5]) / (2022 – 2017 + 1)) x (2018 – 2017)))) x Column [19]
[21] Equals (1 + (Column [5] + (((Column [6] – Column [5]) / (2022 – 2017 + 1)) x (2019 – 2017)))) x Column [20]
[22] Equals (1 + (Column [5] + (((Column [6] – Column [5]) / (2022 – 2017 + 1)) x (2020 – 2017)))) x Column [21]
[23] Equals (1 + (Column [5] + (((Column [6] – Column [5]) / (2022 – 2017 + 1)) x (2021 – 2017)))) x Column [22]
[24] Equals (1 + (Column [5] + (((Column [6] – Column [5]) / (2022 – 2017 + 1)) x (2022 – 2017)))) x Column [23]
[25] Equals Column [24] x (1 + Column [6])
[26] Equals Column [25] x (1 + Column [6])
[27] Equals Column [26] x (1 + Column [6])
[28] Equals Column [27] x (1 + Column [6])
[29] Equals Column [28] x (1 + Column [6])
[30] Equals Column [29] x (1 + Column [6])
[31] Equals Column [7]
[32] Equals Column [31] + ((Column [35] – Column [31]) / 4)
[33] Equals Column [32] + ((Column [35] – Column [31]) / 4)
[34] Equals Column [33] + ((Column [35] – Column [31]) / 4)
[35] Equals Column [8]
[36] Equals Column [35] + ((Column [41] – Column [35]) / 6)
[37] Equals Column [36] + ((Column [41] – Column [35]) / 6)
[38] Equals Column [37] + ((Column [41] – Column [35]) / 6)
[39] Equals Column [38] + ((Column [41] – Column [35]) / 6)
[40] Equals Column [39] + ((Column [41] – Column [35]) / 6)
[41] Equals Column [9]
[42] Equals Column [9]
[43] Equals Column [9]
[44] Equals Column [9]
[45] Equals Column [9]
[46] Equals Column [9]
[47] Equals Column [15] x Column [31]
[48] Equals Column [16] x Column [32]
[49] Equals Column [17] x Column [33]
[50] Equals Column [18] x Column [34]
[51] Equals Column [19] x Column [35]
[52] Equals Column [20] x Column [36]
[53] Equals Column [21] x Column [37]
[54] Equals Column [22] x Column [38]
[55] Equals Column [23] x Column [39]
[56] Equals Column [24] x Column [40]
[57] Equals Column [25] x Column [41]
[58] Equals Column [26] x Column [42]
[59] Equals Column [27] x Column [43]
[60] Equals Column [28] x Column [44]
[61] Equals Column [29] x Column [45]
[62] Equals (Column [61] x (1 + Column [6])) / (Column [11] – Column [6])
[63] Equals negative net present value; discount rate equals Column [11], cash flows equal Column [64] through Column [79]
[64] Equals $0.00
[65] Equals (12/31/2013 - 7/31/2013) / 365 x Column [47]
[66] Equals Column [47] x (1 + (0.5 x Column [5]))
[67] Equals Column [49]
[68] Equals Column [50]
[69] Equals Column [51]
[70] Equals Column [52]
[71] Equals Column [53]
[72] Equals Column [54]
[73] Equals Column [55]
[74] Equals Column [56]
[75] Equals Column [57]
[76] Equals Column [58]
[77] Equals Column [59]
[78] Equals Column [60]
[79] Equals Column [61] + [62]

Proof Concept: Perpetual DCF Results Equal Holding Period DCF Results With Terminal Value

Line Description	IMPLIED GROWTH RATE AT ALLOWED ROE:	
Input	Dividend Yield	3.86% [1]
Assumes g = Allowed ROE - Div. Yield	Assumed Growth Rate	5.32%
Input	Total Return	9.18% [1]
Input	Payout Ratio	80.00% [2]
Input	Book Value/Share	20 [2]

		0	1	2	3	4	5	6	7	8	9	10
BV/S Escalates at Constant Growth g	Book Value/Share	$ 20.00	$ 21.06	$ 22.19	$ 23.37	$ 24.61	$ 25.92	$ 27.30	$ 28.75	$ 30.29	$ 31.90	$ 33.60
Demonstrating Constant BV/S growth			5.32%	5.32%	5.32%	5.32%	5.32%	5.32%	5.32%	5.32%	5.32%	5.32%
Earnings based on ROE applied to BV/S	Earnings/share	$ 1.84	$ 1.93	$ 2.04	$ 2.15	$ 2.26	$ 2.38	$ 2.51	$ 2.64	$ 2.78	$ 2.93	$ 3.09
Demonstrating Constant EPS growth			5.32%	5.32%	5.32%	5.32%	5.32%	5.32%	5.32%	5.32%	5.32%	5.32%
Demonstrating Constant Return Earned based on BV/S and EPS	Allowed ROE	9.18%	9.18%	9.18%	9.18%	9.18%	9.18%	9.18%	9.18%	9.18%	9.18%	9.18%
Div/S based on EPS and Constant Payout ratio	Dividends/Share	$ 1.47	$ 1.55	$ 1.63	$ 1.72	$ 1.81	$ 1.90	$ 2.01	$ 2.11	$ 2.23	$ 2.34	$ 2.47
Demonstrating Constant Div/S growth			5.32%	5.32%	5.32%	5.32%	5.32%	5.32%	5.32%	5.32%	5.32%	5.32%
Retained Earnings based on difference between EPS and Div/S	Earnings retained to book value	$ 0.37	$ 0.39	$ 0.41	$ 0.43	$ 0.45	$ 0.48	$ 0.50	$ 0.53	$ 0.56	$ 0.59	$ 0.62
Demonstrating Constant growth in Retained Earnings			5.32%	5.32%	5.32%	5.32%	5.32%	5.32%	5.32%	5.32%	5.32%	5.32%
Demonstrating Constant Market/Book ratio	Market/Book Ratio	2.005	2.005	2.005	2.005	2.005	2.005	2.005	2.005	2.005	2.005	2.005
DCF calculation of market price = [Div/S]*[1+g]/[ROE-g]	Market Price	$ 40.10	$ 42.23	$ 44.48	$ 46.85	$ 49.34	$ 51.97	$ 54.73	$ 57.65	$ 60.72	$ 63.95	$ 67.35
Demonstrating Price Appreciation equals Long Term Growth Rate	Price Appreciation	5.32%	OK	<== Price appreciation should equal long term growth rate								
Demonstrating Constant Price/Earnings Ratio	Price/Earnings	21.83	21.83	21.83	21.83	21.83	21.83	21.83	21.83	21.83	21.83	21.83
Present Value Factor calculated based upon the current period and the Constant ROE	Present Value Factor		0.9159	0.8389	0.7683	0.7037	0.6445	0.5903	0.5406	0.4952	0.4535	0.4154

CASE 1	DIVIDENDS IN PERPETUITY										
Present value of Div/S obtained by multiplying nominal Div/S by the Present Value Factor for the period	Present Value Dividend	1.4174	1.3673	1.3190	1.2723	1.2274	1.1840	1.1421	1.1017	1.0628	1.0252
Total Value of investment sum of all Present Value Dividends in perpetuity (250 instances for demonstration purposes)	Value of Investment	$ 40.09									

CASE 2	10-YEAR HOLDING PERIOD										
Present value of Div/S obtained by multiplying nominal Div/S by the Present Value Factor for the period	Present Value of Dividend	$ 1.42	$ 1.37	$ 1.32	$ 1.27	$ 1.23	$ 1.18	$ 1.14	$ 1.10	$ 1.06	$ 1.03
Present value of Stock Price obtained by multiplying nominal Stock Price by the Present Value Factor for the 10th Period (Terminal Value)	Present Value of Stock Price	--	--	--	--	--	--	--	--	--	27.98
Value of dividends = sum of all Present Value Dividends for periods 1-10	Value of Dividends	$ 12.12									
Present value of Stock Price obtained by multiplying nominal Stock Price by the Present Value Factor for the 10th Period (Terminal Value)	Value of Stock Price	$ 27.98									
Total Value of investment sum of all Present Value Dividends for periods 1-10 and Present Value of Stock in period 10 (Terminal Value)	Value of Investment	$ 40.10									

CASE 3	5-YEAR HOLDING PERIOD					
Present value of Div/S obtained by multiplying nominal Div/S by the Present Value Factor for the period	Present Value of Dividend	$ 1.42	$ 1.37	$ 1.32	$ 1.27	$ 1.23
Present value of Stock Price obtained by multiplying nominal Stock Price by the Present Value Factor for the 5th Period (Terminal Value)	Present Value of Stock Price	--	--	--	--	33.49
Value of dividends = sum of all Present Value Dividends for periods 1-5	Value of Dividends	$ 6.60				
Present value of Stock Price obtained by multiplying nominal Stock Price by the Present Value Factor for the 5th Period (Terminal Value)	Value of Stock Price	$ 33.49				
Total Value of investment sum of all Present Value Dividends for periods 1-5 and Present Value of Stock in period 5 (Terminal Value)	Value of Investment	$ 40.10				

[1] Source: Schedule (RBH-R)-1. Note, for purposes of this exhibit, these data are illustrative only.
[2] Note: illustrative only.

Proof Concept: Perpetual DCF Results Equal Holding Period DCF Results With Terminal Value

		90	91	92	93	94	95	96	97	98	99	100	250
BV/S Escalates at Constant Growth g	Book Value/Share	$ 2,129.98	$ 2,243.39	$ 2,362.82	$ 2,488.61	$ 2,621.09	$ 2,760.63	$ 2,907.60	$ 3,062.39	$ 3,225.42	$ 3,397.14	$ 3,577.99	$ 8,561,555.40
Demonstrating Constant BV/S growth		5.32%	5.32%	5.32%	5.32%	5.32%	5.32%	5.32%	5.32%	5.32%	5.32%	5.32%	5.32%
Earnings based on ROE applied to BV/S	Earnings/share	$ 195.61	$ 206.02	$ 216.99	$ 228.54	$ 240.71	$ 253.52	$ 267.02	$ 281.23	$ 296.21	$ 311.98	$ 328.58	$ 786,248.86
Demonstrating Constant EPS growth		5.32%	5.32%	5.32%	5.32%	5.32%	5.32%	5.32%	5.32%	5.32%	5.32%	5.32%	5.32%
Demonstrating Constant Return Earned based on BV/S and EPS	Allowed ROE	9.18%	9.18%	9.18%	9.18%	9.18%	9.18%	9.18%	9.18%	9.18%	9.18%	9.18%	9.18%
Div/S based on EPS and Constant Payout ratio	Dividends/Share	$ 156.49	$ 164.82	$ 173.59	$ 182.83	$ 192.57	$ 202.82	$ 213.62	$ 224.99	$ 236.97	$ 249.58	$ 262.87	$ 628,999.09
Demonstrating Constant Div/S growth		5.32%	5.32%	5.32%	5.32%	5.32%	5.32%	5.32%	5.32%	5.32%	5.32%	5.32%	5.32%
Retained Earnings based on difference between EPS and Div/S	Earnings retained to book value	$ 39.12	$ 41.20	$ 43.40	$ 45.71	$ 48.14	$ 50.70	$ 53.40	$ 56.25	$ 59.24	$ 62.40	$ 65.72	$ 157,249.77
Demonstrating Constant growth in Retained Earnings		5.32%	5.32%	5.32%	5.32%	5.32%	5.32%	5.32%	5.32%	5.32%	5.32%	5.32%	5.32%
Demonstrating Constant Market/Book ratio	Market/Book Ratio	2.005	2.005	2.005	2.005	2.005	2.005	2.005	2.005	2.005	2.005	2.005	2.005
DCF calculation of market price = [Div/S]*[1+g]/[ROE-g]	Market Price	$ 4,270.10	$ 4,497.43	$ 4,736.86	$ 4,989.04	$ 5,254.64	$ 5,534.38	$ 5,829.01	$ 6,139.33	$ 6,466.17	$ 6,810.41	$ 7,172.98	$ 17,163,779.54
Demonstrating Price Appreciation equals Long Term Growth Rate	Price Appreciation												
Demonstrating Constant Price/Earnings Ratio	Price/Earnings	21.83	21.83	21.83	21.83	21.83	21.83	21.83	21.83	21.83	21.83	21.83	21.83
Present Value Factor calculated based upon the current period and the Constant ROE	Present Value Factor	0.0004	0.0003	0.0003	0.0003	0.0003	0.0002	0.0002	0.0002	0.0002	0.0002	0.0002	0.0000

CASE 1	DIVIDENDS IN PERPETUITY												
Present value of Div/S obtained by multiplying nominal Div/S by the Present Value Factor for the period	Present Value Dividend	0.0576	0.0556	0.0536	0.0517	0.0499	0.0481	0.0464	0.0448	0.0432	0.0417	0.0402	0.0002
Total Value of investment sum of all Present Value Dividends in perpetuity (250 instances for demonstration purposes)	Value of Investment												

Equity Duration Calculation
DPA Witness Parcell's Proxy Group Companies

Company	Ticker	Annualized Dividend	Average Stock Price	Dividend Yield	Expected Dividend Yield	Average Growth	Mean ROE	Equity Duration
Allete	ALE	$1.90	$50.49	3.76%	3.83%	3.70%	7.53%	27.92
Alliant Energy	LNT	$1.88	$50.49	3.72%	3.81%	4.60%	8.41%	28.30
Avista Corp.	AVA	$1.22	$27.47	4.44%	4.54%	4.60%	9.14%	23.98
Black Hills Corp	BKH	$1.52	$49.60	3.06%	3.12%	3.80%	6.92%	33.71
IDACORP	IDA	$1.52	$49.57	3.07%	3.14%	4.70%	7.84%	33.82
MGE Energy	MGEE	$1.58	$56.41	2.80%	2.86%	4.50%	7.36%	36.59
NorthWestern Energy	NWE	$1.52	$41.23	3.69%	3.76%	4.10%	7.86%	28.50
Pepco Holdings	POM	$1.08	$20.96	5.15%	5.21%	2.40%	7.61%	20.63
Portland General Electric	POR	$1.10	$31.03	3.54%	3.62%	4.50%	8.12%	29.61
TECO Energy	TE	$0.88	$17.81	4.94%	5.00%	2.40%	7.40%	21.46
Westar Energy	WR	$1.36	$32.53	4.18%	4.26%	3.70%	7.96%	25.29
Wisconsin Energy	WEC	$1.36	$41.94	3.24%	3.36%	7.10%	10.46%	32.48

Source: Exhibit DCP-7; Differences in ROE estimates due to rounding.

Average Equity Duration 28.52

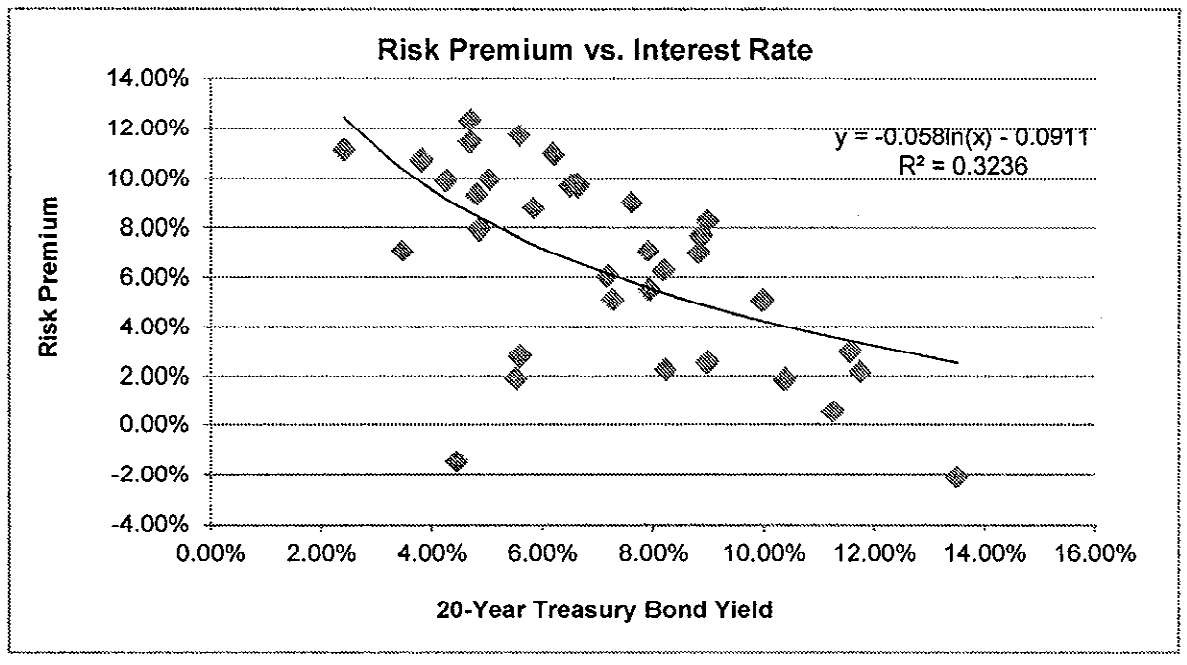
Equity Duration Calculation
DPA Witness Parcell's Proxy Group Companies

Equity Duration Calulation	Price	D(0)	Growth Rate	Period	1	2	3	4	200
ALE Stated Price	$ 50.49	1.90	3.70%	Dividend	$ 1.94	$ 2.01	$ 2.08	$ 2.16	$ 2,671.08
ALE Implied Price	$ 50.45			PV Factor	0.9299493	0.8648058	0.8042256	0.7478890	0.0000005
ALE Equity Duration	27.92			PV Wtgd Cash Flow	0.0356676	0.0343964	0.0331704	0.0319881	0.0000260
LNT Stated Price	$ 50.49	1.88	4.60%	Dividend	$ 1.92	$ 2.01	$ 2.10	$ 2.20	$ 14,819.68
LNT Implied Price	$ 50.45			PV Factor	0.9224314	0.8508796	0.7848780	0.7239961	0.0000001
LNT Equity Duration	28.30			PV Wtgd Cash Flow	0.0351643	0.0339287	0.0327366	0.0315863	0.0000285
AVA Stated Price	$ 27.47	1.22	4.60%	Dividend	$ 1.25	$ 1.31	$ 1.37	$ 1.43	$ 9,617.02
AVA Implied Price	$ 27.46			PV Factor	0.9162262	0.8394704	0.7691448	0.7047106	0.0000000
AVA Equity Duration	23.98			PV Wtgd Cash Flow	0.0416359	0.0399027	0.0382416	0.0366497	0.0000088
BKH Stated Price	$ 49.60	1.52	3.80%	Dividend	$ 1.55	$ 1.61	$ 1.67	$ 1.73	$ 2,589.95
BKH Implied Price	$ 49.47			PV Factor	0.9352547	0.8747014	0.8180686	0.7651026	0.0000015
BKH Equity Duration	33.71			PV Wtgd Cash Flow	0.0292836	0.0284283	0.0275981	0.0267921	0.0000803
IDA Stated Price	$ 49.57	1.52	4.70%	Dividend	$ 1.56	$ 1.63	$ 1.71	$ 1.79	$ 14,498.43
IDA Implied Price	$ 49.44			PV Factor	0.9273132	0.8599098	0.7974057	0.7394448	0.0000003
IDA Equity Duration	33.82			PV Wtgd Cash Flow	0.0291825	0.0283332	0.0275086	0.0267080	0.0000818
MGEE Stated Price	$ 56.41	1.58	4.50%	Dividend	$ 1.62	$ 1.69	$ 1.76	$ 1.84	$ 10,291.11
MGEE Implied Price	$ 56.16			PV Factor	0.9314114	0.8675272	0.8080247	0.7526034	0.0000007
MGEE Equity Duration	36.59			PV Wtgd Cash Flow	0.0267952	0.0260804	0.0253847	0.0247076	0.0001234
NWE Stated Price	$ 41.23	1.52	4.10%	Dividend	$ 1.55	$ 1.61	$ 1.68	$ 1.75	$ 4,606.30
NWE Implied Price	$ 41.20			PV Factor	0.9271087	0.8595306	0.7968784	0.7387929	0.0000003
NWE Equity Duration	28.50			PV Wtgd Cash Flow	0.0349086	0.0336910	0.0325158	0.0313817	0.0000298
POM Stated Price	$ 20.96	1.08	2.40%	Dividend	$ 1.09	$ 1.12	$ 1.15	$ 1.17	$ 122.55
POM Implied Price	$ 20.96			PV Factor	0.9292428	0.8634921	0.8023938	0.7456187	0.0000004
POM Equity Duration	20.63			PV Wtgd Cash Flow	0.0484578	0.0461097	0.0438754	0.0417494	0.0000025
POR Stated Price	$ 31.03	1.10	4.50%	Dividend	$ 1.12	$ 1.18	$ 1.23	$ 1.28	$ 7,164.70
POR Implied Price	$ 31.00			PV Factor	0.9248579	0.8553621	0.7910884	0.7316444	0.0000002
POR Equity Duration	29.61			PV Wtgd Cash Flow	0.0335601	0.0324351	0.0313478	0.0302969	0.0000379
TE Stated Price	$ 17.81	0.88	2.40%	Dividend	$ 0.89	$ 0.91	$ 0.93	$ 0.96	$ 99.85
TE Implied Price	$ 17.81			PV Factor	0.9310958	0.8669393	0.8072036	0.7515838	0.0000006
TE Equity Duration	21.46			PV Wtgd Cash Flow	0.0465613	0.0443935	0.0423266	0.0403560	0.0000035
WR Stated Price	$ 32.53	1.36	3.70%	Dividend	$ 1.39	$ 1.44	$ 1.49	$ 1.54	$ 1,911.93
WR Implied Price	$ 32.52			PV Factor	0.9262853	0.8580044	0.7947569	0.7361716	0.0000002
WR Equity Duration	25.29			PV Wtgd Cash Flow	0.0394548	0.0378986	0.0364038	0.0349679	0.0000131
WEC Stated Price	$ 41.94	1.36	7.10%	Dividend	$ 1.41	$ 1.51	$ 1.62	$ 1.73	$ 1,193,421.09
WEC Implied Price	$ 41.85			PV Factor	0.9053228	0.8196093	0.7420109	0.6717594	0.0000000
WEC Equity Duration	32.48			PV Wtgd Cash Flow	0.0304628	0.0295367	0.0286388	0.0277682	0.0000654

Market Risk Premium Regression Based on DPA Witness Parcell's Data

	[1]	[2]	[3]	[4]	[5]	[6]
Year	EPS	BVPS	ROE	20-Year Treasury Bond Yield	Risk Premium	Logged Treasury Bond Yield
1977		$79.07				
1978	$12.33	$85.35	15.00%	7.90%	7.10%	-253.83%
1979	$14.86	$94.27	16.55%	8.86%	7.69%	-242.36%
1980	$14.82	$102.48	15.06%	9.97%	5.09%	-230.56%
1981	$15.36	$109.43	14.50%	11.55%	2.95%	-215.85%
1982	$12.64	$112.46	11.39%	13.50%	-2.11%	-200.25%
1983	$14.03	$116.93	12.23%	10.38%	1.85%	-226.53%
1984	$16.64	$122.47	13.90%	11.74%	2.16%	-214.22%
1985	$14.61	$125.20	11.80%	11.25%	0.55%	-218.48%
1986	$14.48	$126.82	11.49%	8.98%	2.51%	-241.02%
1987	$17.50	$134.04	13.42%	7.92%	5.50%	-253.58%
1988	$23.75	$141.32	17.25%	8.97%	8.28%	-241.13%
1989	$22.87	$147.26	15.85%	8.81%	7.04%	-242.93%
1990	$21.73	$153.01	14.47%	8.19%	6.28%	-250.23%
1991	$16.29	$158.85	10.45%	8.22%	2.23%	-249.86%
1992	$19.09	$149.74	12.37%	7.26%	5.11%	-262.28%
1993	$21.89	$180.88	13.24%	7.17%	6.07%	-263.53%
1994	$30.60	$193.06	16.37%	6.59%	9.78%	-271.96%
1995	$33.96	$215.51	16.62%	7.60%	9.02%	-257.70%
1996	$38.73	$237.08	17.11%	6.18%	10.93%	-278.39%
1997	$39.72	$249.52	16.33%	6.64%	9.69%	-271.21%
1998	$37.71	$266.40	14.62%	5.83%	8.79%	-284.22%
1999	$48.17	$290.68	17.29%	5.57%	11.72%	-288.78%
2000	$50.00	$325.80	16.22%	6.50%	9.72%	-273.34%
2001	$24.69	$338.37	7.43%	5.53%	1.90%	-289.50%
2002	$27.59	$321.72	8.36%	5.59%	2.77%	-288.42%
2003	$48.73	$367.17	14.15%	4.80%	9.35%	-303.66%
2004	$58.55	$414.75	14.98%	5.02%	9.96%	-299.17%
2005	$69.93	$453.06	16.12%	4.69%	11.43%	-305.97%
2006	$81.51	$504.39	17.03%	4.68%	12.35%	-306.19%
2007	$66.17	$529.59	12.80%	4.86%	7.94%	-302.41%
2008	$14.88	$451.37	3.03%	4.45%	-1.42%	-311.23%
2009	$50.97	$513.58	10.56%	3.47%	7.09%	-336.10%
2010	$77.35	$579.14	14.16%	4.25%	9.91%	-315.83%
2011	$86.58	$613.14	14.52%	3.81%	10.71%	-326.75%
2012	$86.51	$666.97	13.52%	2.40%	11.12%	-372.97%
Average			13.72%	7.12%	6.60%	

Market Risk Premium Regression Based on DPA Witness Parcell's Data



SUMMARY OUTPUT - Semi-Log Regression Model

Regression Statistics	
Multiple R	0.568845
R Square	0.323585
Adjusted R Square	0.303088
Standard Error	0.032830
Observations	35

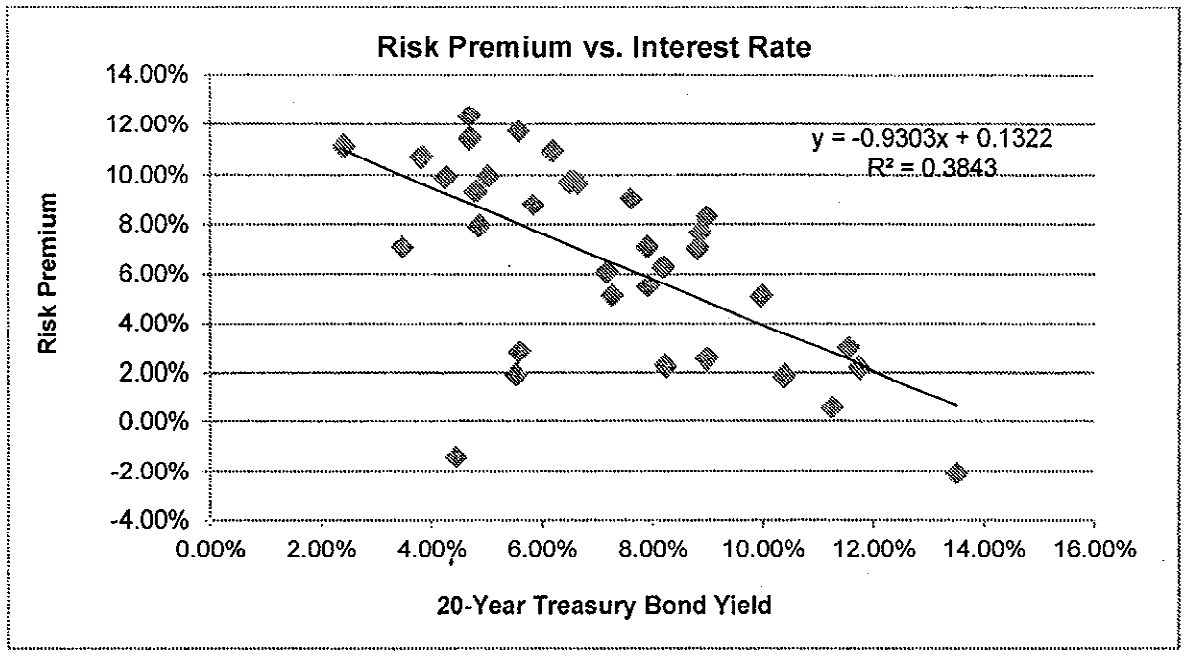
ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	1	0.017015	0.017015	15.786626	0.000363
Residual	33	0.035569	0.001078		
Total	34	0.052584			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	-0.091059	0.039921	-2.280962	0.029137	-0.172279	-0.009838	-0.172279	-0.009838
Logged Treasury Bond Yield	-0.057929	0.014580	-3.973239	0.000363	-0.087592	-0.028266	-0.087592	-0.028266

	[7]	[8]	[9]	[10]
	Risk-Free Rate	Risk Premium	Beta	ROE
Parcell Proxy Group [11]	3.04%	11.13%	0.72	11.05%
Hevert Proxy Group [12]	3.04%	11.13%	0.73	11.17%

Market Risk Premium Regression Based on DPA Witness Parcell's Data



SUMMARY OUTPUT - Linear Regression

Regression Statistics	
Multiple R	0.619898
R Square	0.384274
Adjusted R Square	0.365615
Standard Error	0.031323
Observations	35

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	1	0.020207	0.020207	20.595235	0.000071
Residual	33	0.032377	0.000981		
Total	34	0.052584			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	0.132234	0.015522	8.519268	0.000000	0.100655	0.163813	0.100655	0.163813
20-Year Treasury Bond Yield	-0.930261	0.204985	-4.538197	0.000071	-1.347306	-0.513217	-1.347306	-0.513217

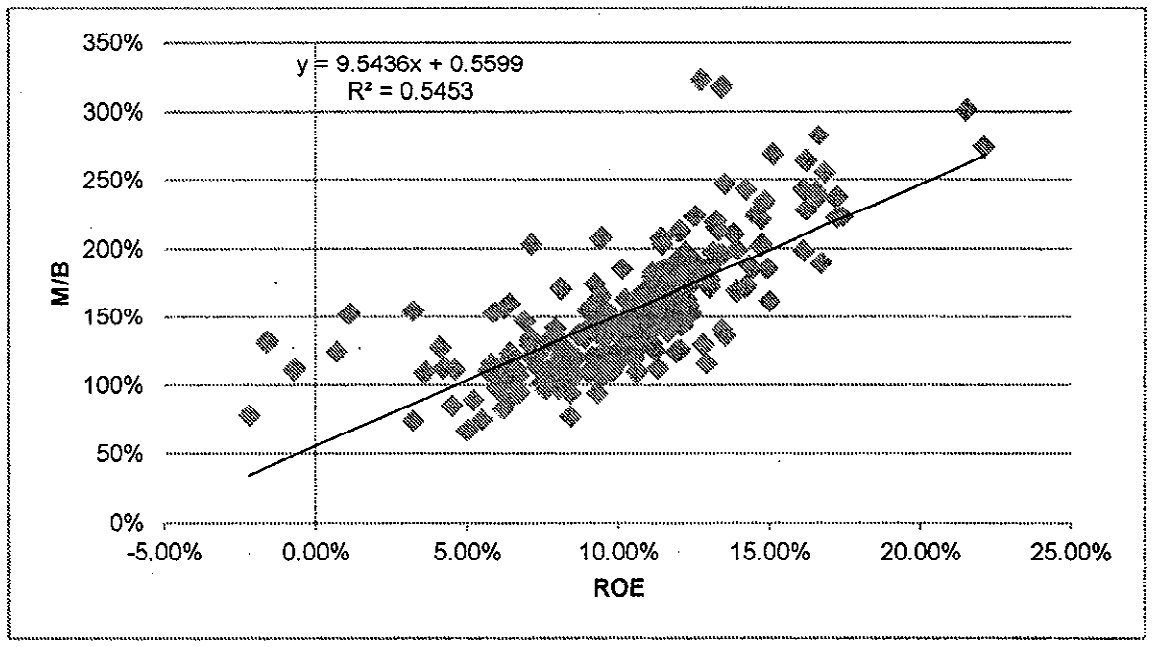
	[13]	[14]	[15]	[16]
	Risk-Free Rate	Risk Premium	Beta	ROE
Parcell Proxy Group [17]	3.04%	10.40%	0.72	10.52%
Hevert Proxy Group [18]	3.04%	10.40%	0.73	10.63%

NOTES

[1] Source: Direct Testimony of David C. Parcell, Exhibit DCP-8
[2] Source: Direct Testimony of David C. Parcell, Exhibit DCP-8
[3] Source: Direct Testimony of David C. Parcell, Exhibit DCP-8
[4] Source: Direct Testimony of David C. Parcell, Exhibit DCP-8
[5] Equals Col. [3] - Col. [4]
[6] Equals Ln (Col. [5])
[7] Source: Direct Testimony of David C. Parcell, Exhibit DCP-9, 3-month average yield on 20-year Treasury Bonds
[8] Equals -0.091059 + (-0.057929 x Ln (Col. [7]))
[9] See notes [11] and [12]
[10] Col. [7] + (Col. [9] x Col. [8])
[11] Source: Direct Testimony of David C. Parcell, Exhibit DCP-9, average Beta for Parcell Proxy Group
[12] Source: Direct Testimony of David C. Parcell, Exhibit DCP-9, average Beta for Hevert Proxy Group
[13] See note [7]
[14] Equals 0.132234 + (-0.930261 x Col. [13])
[15] See notes [17] and [18]
[16] Col. [13] + (Col. [15] x Col. [14])
[17] See note [11]
[18] See note [12]

Market to Book Ratio	Implied ROE
111%	5.76%
115%	6.18%
125%	7.23%
145%	9.33%
154%	10.25%
111%	**5.76%**

Market-to-Book Regression Analysis
DPA Witness Parcell Proxy Group



SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.738422
R Square	0.545267
Adjusted R Square	0.543162
Standard Error	0.310681
Observations	218

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	1	24.999807	24.999807	259.003779	7.97962E-39
Residual	216	20.848955	0.096523		
Total	217	45.848762			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	0.559944	0.064605	8.667145	0.000000	0.432606	0.687281	0.432606	0.687281
ROE	9.543634	0.593008	16.093594	0.000000	8.374810	10.712457	8.374810	10.712457

Market-to-Book Regression Analysis
DPA Witness Parcell Proxy Group

Company	Year	ROE	M/B
ALE	2004	12.70%	322.00%
ALE	2005	12.00%	212.00%
ALE	2006	13.20%	219.00%
ALE	2007	13.40%	195.00%
ALE	2008	11.40%	156.00%
ALE	2009	7.30%	113.00%
ALE	2010	8.20%	127.00%
ALE	2011	9.50%	138.00%
ALE	2012	8.70%	136.00%
LNT	1992	12.20%	190.00%
LNT	1993	11.50%	185.00%
LNT	1994	11.60%	154.00%
LNT	1995	12.00%	152.00%
LNT	1996	11.60%	154.00%
LNT	1997	9.60%	155.00%
LNT	1998	6.20%	156.00%
LNT	1999	9.10%	120.00%
LNT	2000	9.30%	120.00%
LNT	2001	10.30%	129.00%
LNT	2002	5.70%	110.00%
LNT	2003	7.60%	97.00%
LNT	2004	8.50%	120.00%
LNT	2005	10.30%	131.00%
LNT	2006	9.40%	155.00%
LNT	2007	11.40%	173.00%
LNT	2008	10.20%	131.00%
LNT	2009	7.50%	102.00%
LNT	2010	10.80%	131.00%
LNT	2011	10.30%	147.00%
LNT	2012	11.00%	162.00%
AVA	1992	11.70%	151.00%
AVA	1993	12.20%	163.00%
AVA	1994	10.50%	133.00%
AVA	1995	11.20%	125.00%
AVA	1996	10.60%	145.00%
AVA	1997	15.00%	162.00%
AVA	1998	10.20%	163.00%
AVA	1999	1.10%	152.00%
AVA	2000	13.40%	317.00%

Market-to-Book Regression Analysis
DPA Witness Parcell Proxy Group

Company	Year	ROE	M/B
AVA	2001	7.90%	114.00%
AVA	2002	4.50%	85.00%
AVA	2003	6.70%	94.00%
AVA	2004	4.60%	111.00%
AVA	2005	5.80%	115.00%
AVA	2006	8.80%	135.00%
AVA	2007	4.10%	127.00%
AVA	2008	7.60%	110.00%
AVA	2009	8.40%	94.00%
AVA	2010	8.50%	106.00%
AVA	2011	8.60%	119.00%
AVA	2012	6.40%	123.00%
BKH	1992	16.20%	264.00%
BKH	1993	14.70%	221.00%
BKH	1994	13.90%	169.00%
BKH	1995	14.40%	185.00%
BKH	1996	16.10%	198.00%
BKH	1997	16.20%	228.00%
BKH	1998	16.80%	255.00%
BKH	1999	17.20%	237.00%
BKH	2000	21.50%	301.00%
BKH	2001	22.10%	273.00%
BKH	2002	12.10%	143.00%
BKH	2003	8.90%	134.00%
BKH	2004	7.90%	134.00%
BKH	2005	9.40%	165.00%
BKH	2006	9.60%	153.00%
BKH	2007	10.90%	164.00%
BKH	2008	0.70%	124.00%
BKH	2009	8.40%	77.00%
BKH	2010	5.90%	108.00%
BKH	2011	3.60%	109.00%
BKH	2012	7.10%	121.00%
IDA	1992	9.00%	155.00%
IDA	1993	11.20%	172.00%
IDA	1994	10.10%	146.00%
IDA	1995	11.60%	148.00%
IDA	1996	12.10%	168.00%
IDA	1997	12.40%	177.00%
IDA	1998	12.40%	177.00%
IDA	1999	12.30%	158.00%
IDA	2000	16.70%	189.00%
IDA	2001	14.90%	185.00%
IDA	2002	7.10%	134.00%
IDA	2003	4.20%	112.00%
IDA	2004	8.20%	125.00%
IDA	2005	7.30%	122.00%
IDA	2006	9.40%	139.00%
IDA	2007	7.10%	132.00%
IDA	2008	8.00%	104.00%
IDA	2009	9.30%	94.00%
IDA	2010	9.80%	113.00%
IDA	2011	10.50%	119.00%
IDA	2012	9.90%	123.00%
MGEE	1992	13.10%	189.00%
MGEE	1993	13.30%	196.00%
MGEE	1994	13.10%	189.00%
MGEE	1995	12.50%	183.00%
MGEE	1996	7.10%	203.00%
MGEE	1997	12.50%	189.00%
MGEE	1998	12.20%	197.00%
MGEE	1999	13.00%	177.00%
MGEE	2000	14.20%	172.00%
MGEE	2001	13.10%	197.00%
MGEE	2002	13.20%	214.00%
MGEE	2003	12.50%	223.00%
MGEE	2004	11.40%	207.00%
MGEE	2005	9.40%	207.00%
MGEE	2006	11.90%	191.00%
MGEE	2007	12.10%	178.00%

Market-to-Book Regression Analysis
DPA Witness Parcell Proxy Group

Company	Year	ROE	M/B
MGEE	2008	11.80%	160.00%
MGEE	2009	10.40%	154.00%
MGEE	2010	11.30%	170.00%
MGEE	2011	11.30%	182.00%
MGEE	2012	11.40%	203.00%
NWE	2005	16.60%	282.00%
NWE	2006	6.40%	160.00%
NWE	2007	6.90%	147.00%
NWE	2008	8.40%	109.00%
NWE	2009	9.40%	105.00%
NWE	2010	9.60%	122.00%
NWE	2011	10.90%	138.00%
NWE	2012	9.30%	146.00%
POM	1992	10.60%	160.00%
POM	1993	12.00%	162.00%
POM	1994	10.80%	135.00%
POM	1995	10.50%	138.00%
POM	1996	11.70%	161.00%
POM	1997	10.50%	151.00%
POM	1998	11.30%	161.00%
POM	1999	11.70%	166.00%
POM	2000	8.90%	139.00%
POM	2001	11.90%	124.00%
POM	2002	9.80%	110.00%
POM	2003	7.60%	103.00%
POM	2004	6.30%	109.00%
POM	2005	8.10%	122.00%
POM	2006	7.10%	129.00%
POM	2007	7.90%	141.00%
POM	2008	9.90%	115.00%
POM	2009	5.50%	75.00%
POM	2010	6.50%	92.00%
POM	2011	6.00%	98.00%
POM	2012	6.50%	101.00%
POR	1992	12.90%	115.00%
POR	1993	12.00%	125.00%
POR	1994	11.30%	112.00%
POR	1995	13.40%	140.00%
POR	1996	13.90%	199.00%
POR	2006	5.90%	153.00%
POR	2007	11.50%	140.00%
POR	2008	6.50%	101.00%
POR	2009	6.20%	83.00%
POR	2010	8.00%	97.00%
POR	2011	9.00%	109.00%
POR	2012	8.30%	117.00%
TE	1992	16.10%	243.00%
TE	1993	15.10%	268.00%
TE	1994	14.50%	224.00%
TE	1995	16.60%	238.00%
TE	1996	16.50%	241.00%
TE	1997	14.80%	234.00%
TE	1998	13.50%	247.00%
TE	1999	13.80%	210.00%
TE	2000	17.40%	223.00%
TE	2001	17.20%	222.00%
TE	2002	13.50%	135.00%
TE	2003	-0.70%	111.00%
TE	2004	9.20%	174.00%
TE	2005	14.20%	243.00%
TE	2006	14.70%	202.00%
TE	2007	14.30%	188.00%
TE	2008	8.10%	171.00%
TE	2009	10.40%	131.00%
TE	2010	11.40%	164.00%
TE	2011	12.30%	172.00%
TE	2012	10.80%	168.00%
WR	1992	11.00%	144.00%
WR	1993	12.40%	152.00%
WR	1994	10.70%	130.00%

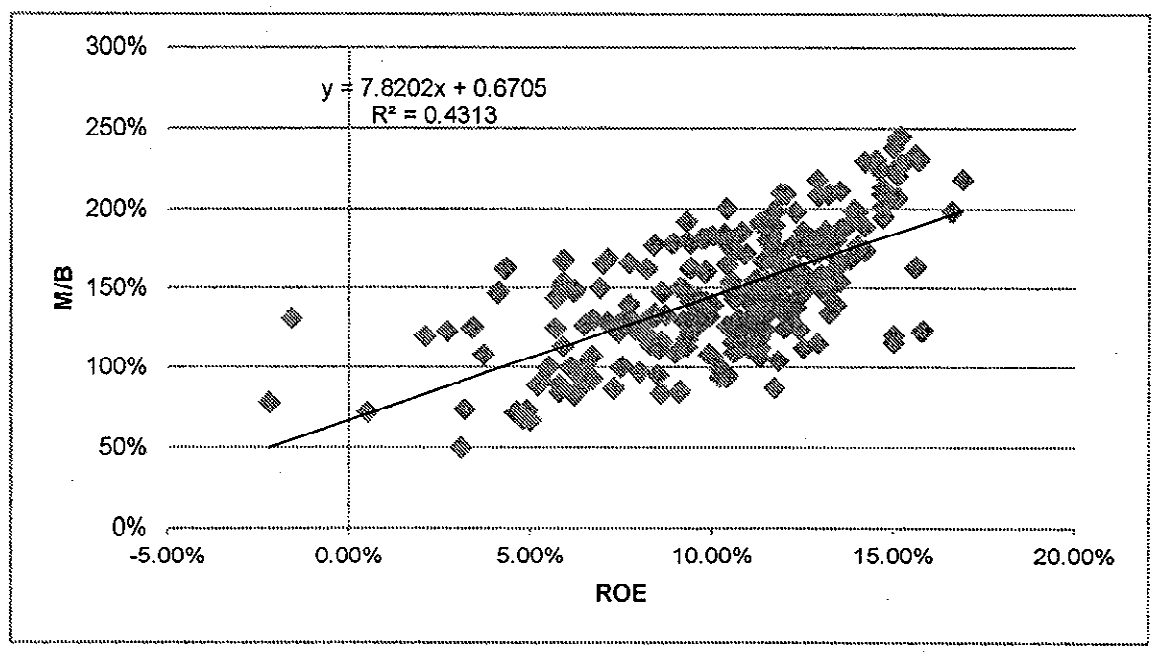
Market-to-Book Regression Analysis
DPA Witness Parcell Proxy Group

Company	Year	ROE	M/B
WR	1995	11.10%	129.00%
WR	1996	10.40%	126.00%
WR	1997	-1.60%	131.00%
WR	1998	7.10%	128.00%
WR	1999	5.20%	89.00%
WR	2000	3.20%	74.00%
WR	2001	-2.20%	78.00%
WR	2002	5.00%	67.00%
WR	2003	10.60%	109.00%
WR	2004	7.70%	132.00%
WR	2005	9.60%	142.00%
WR	2006	11.10%	139.00%
WR	2007	10.00%	140.00%
WR	2008	6.70%	107.00%
WR	2009	6.30%	91.00%
WR	2010	6.60%	111.00%
WR	2011	8.20%	119.00%
WR	2012	9.50%	133.00%
WEC	1992	11.40%	178.00%
WEC	1993	11.80%	177.00%
WEC	1994	10.50%	160.00%
WEC	1995	13.00%	172.00%
WEC	1996	11.50%	169.00%
WEC	1997	3.20%	154.00%
WEC	1998	10.10%	185.00%
WEC	1999	11.30%	152.00%
WEC	2000	6.40%	119.00%
WEC	2001	10.60%	126.00%
WEC	2002	12.80%	129.00%
WEC	2003	11.80%	147.00%
WEC	2004	9.00%	156.00%
WEC	2005	11.60%	138.00%
WEC	2006	11.10%	182.00%
WEC	2007	11.10%	179.00%
WEC	2008	11.00%	153.00%
WEC	2009	10.80%	147.00%
WEC	2010	12.20%	171.00%
WEC	2011	13.00%	186.00%
WEC	2012	13.30%	213.00%

Source: Exhibit DCP-10

Market to Book Ratio	Implied ROE
111%	5.62%
115%	6.13%
125%	7.41%
153%	11.04%
147%	10.25%
111%	**5.62%**

Market-to-Book Regression Analysis
Mr. Hevert Proxy Group



SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.656724
R Square	0.431287
Adjusted R Square	0.428927
Standard Error	0.291602
Observations	243

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	1	15.540682	15.540682	182.763814	2.26673E-31
Residual	241	20.492592	0.085032		
Total	242	36.033274			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	0.670456	0.062849	10.667725	0.000000	0.546652	0.794259	0.546652	0.794259
ROE	7.820244	0.578462	13.519017	0.000000	6.680756	8.959732	6.680756	8.959732

Market-to-Book Regression Analysis
Mr. Hevert Proxy Group

Company	Year	ROE	M/B
AEP	1992	11.10%	143.00%
AEP	1993	11.90%	159.00%
AEP	1994	12.00%	143.00%
AEP	1995	12.40%	156.00%
AEP	1996	13.20%	176.00%
AEP	1997	13.50%	187.00%
AEP	1998	11.30%	191.00%
AEP	1999	10.50%	154.00%
AEP	2000	4.10%	147.00%
AEP	2001	12.90%	179.00%
AEP	2002	12.30%	138.00%
AEP	2003	12.40%	124.00%
AEP	2004	12.70%	155.00%
AEP	2005	11.90%	165.00%
AEP	2006	12.20%	161.00%
AEP	2007	11.70%	190.00%
AEP	2008	11.60%	145.00%
AEP	2009	11.00%	112.00%
AEP	2010	9.30%	118.00%
AEP	2011	10.70%	128.00%
AEP	2012	9.70%	134.00%
CNL	1992	14.00%	177.00%
CNL	1993	12.40%	175.00%
CNL	1994	12.90%	156.00%
CNL	1995	13.40%	162.00%
CNL	1996	13.80%	168.00%
CNL	1997	12.80%	171.00%
CNL	1998	12.60%	183.00%
CNL	1999	12.90%	172.00%
CNL	2000	15.00%	223.00%
CNL	2001	14.60%	224.00%
CNL	2002	13.50%	154.00%
CNL	2003	11.50%	134.00%
CNL	2004	12.60%	177.00%
CNL	2005	11.60%	177.00%
CNL	2006	9.40%	162.00%
CNL	2007	8.20%	162.00%
CNL	2008	9.90%	132.00%
CNL	2009	9.70%	129.00%

Market-to-Book Regression Analysis
Mr. Hevert Proxy Group

Company	Year	ROE	M/B
CNL	2010	11.40%	139.00%
CNL	2011	11.40%	151.00%
CNL	2012	11.20%	155.00%
EDE	1992	10.30%	184.00%
EDE	1993	9.40%	178.00%
EDE	1994	10.60%	143.00%
EDE	1995	9.40%	142.00%
EDE	1996	9.60%	143.00%
EDE	1997	9.90%	138.00%
EDE	1998	11.60%	168.00%
EDE	1999	8.40%	177.00%
EDE	2000	10.00%	183.00%
EDE	2001	4.30%	162.00%
EDE	2002	8.40%	132.00%
EDE	2003	8.70%	133.00%
EDE	2004	5.70%	144.00%
EDE	2005	6.20%	148.00%
EDE	2006	9.20%	149.00%
EDE	2007	6.90%	150.00%
EDE	2008	7.40%	122.00%
EDE	2009	7.50%	100.00%
EDE	2010	7.40%	127.00%
EDE	2011	8.10%	128.00%
EDE	2012	7.90%	124.00%
GXP	1992	9.80%	160.00%
GXP	1993	12.00%	173.00%
GXP	1994	11.70%	151.00%
GXP	1995	13.40%	168.00%
GXP	1996	11.60%	181.00%
GXP	1997	11.70%	198.00%
GXP	1998	13.20%	209.00%
GXP	1999	8.90%	178.00%
GXP	2000	14.20%	173.00%
GXP	2001	11.60%	185.00%
GXP	2002	15.60%	163.00%
GXP	2003	16.60%	198.00%
GXP	2004	16.90%	218.00%
GXP	2005	13.70%	189.00%
GXP	2006	9.80%	181.00%
GXP	2007	10.60%	173.00%
GXP	2008	5.90%	113.00%
GXP	2009	4.90%	73.00%
GXP	2010	7.30%	87.00%
GXP	2011	5.80%	89.00%
GXP	2012	6.20%	97.00%
HE	1992	10.90%	171.00%
HE	1993	10.50%	154.00%
HE	1994	11.10%	141.00%
HE	1995	11.00%	149.00%
HE	1996	10.50%	147.00%
HE	1997	10.90%	147.00%
HE	1998	11.50%	154.00%
HE	1999	11.10%	132.00%
HE	2000	9.60%	127.00%
HE	2001	12.40%	145.00%
HE	2002	11.90%	153.00%
HE	2003	11.10%	151.00%
HE	2004	9.30%	179.00%
HE	2005	9.70%	181.00%
HE	2006	9.30%	192.00%
HE	2007	7.70%	165.00%
HE	2008	7.00%	165.00%
HE	2009	5.90%	113.00%
HE	2010	7.70%	140.00%
HE	2011	9.10%	150.00%
HE	2012	10.40%	164.00%
IDA	1992	13.10%	155.00%
IDA	1993	13.30%	172.00%
IDA	1994	13.10%	146.00%
IDA	1995	12.50%	148.00%

Market-to-Book Regression Analysis
Mr. Hevert Proxy Group

Company	Year	ROE	M/B
IDA	1996	7.10%	168.00%
IDA	1997	12.50%	177.00%
IDA	1998	12.20%	177.00%
IDA	1999	13.00%	158.00%
IDA	2000	14.20%	189.00%
IDA	2001	13.10%	185.00%
IDA	2002	13.20%	134.00%
IDA	2003	12.50%	112.00%
IDA	2004	11.40%	125.00%
IDA	2005	9.40%	122.00%
IDA	2006	11.90%	139.00%
IDA	2007	12.10%	132.00%
IDA	2008	11.80%	104.00%
IDA	2009	10.40%	94.00%
IDA	2010	11.30%	113.00%
IDA	2011	11.30%	119.00%
IDA	2012	11.40%	123.00%
OTTR	1992	15.00%	116.00%
OTTR	1993	15.00%	120.00%
OTTR	1994	15.10%	207.00%
OTTR	1995	14.70%	213.00%
OTTR	1996	14.70%	209.00%
OTTR	1997	14.70%	195.00%
OTTR	1998	14.00%	198.00%
OTTR	1999	14.70%	201.00%
OTTR	2000	15.10%	221.00%
OTTR	2001	15.10%	243.00%
OTTR	2002	15.20%	245.00%
OTTR	2003	12.00%	209.00%
OTTR	2004	10.80%	185.00%
OTTR	2005	11.60%	183.00%
OTTR	2006	10.40%	178.00%
OTTR	2007	10.40%	200.00%
OTTR	2008	5.90%	167.00%
OTTR	2009	3.70%	108.00%
OTTR	2010	2.10%	120.00%
OTTR	2011	2.70%	123.00%
OTTR	2012	5.90%	152.00%
PNW	1992	10.70%	116.00%
PNW	1993	10.90%	125.00%
PNW	1994	10.20%	99.00%
PNW	1995	10.60%	116.00%
PNW	1996	11.20%	133.00%
PNW	1997	11.90%	152.00%
PNW	1998	11.50%	180.00%
PNW	1999	12.30%	143.00%
PNW	2000	12.40%	145.00%
PNW	2001	12.80%	154.00%
PNW	2002	8.60%	116.00%
PNW	2003	8.30%	114.00%
PNW	2004	8.20%	130.00%
PNW	2005	6.70%	130.00%
PNW	2006	9.20%	129.00%
PNW	2007	6.50%	127.00%
PNW	2008	6.10%	100.00%
PNW	2009	6.50%	90.00%
PNW	2010	9.30%	113.00%
PNW	2011	5.70%	125.00%
PNW	2012	9.80%	141.00%
PNM	1992	4.60%	72.00%
PNM	1993	8.60%	84.00%
PNM	1994	11.70%	87.00%
PNM	1995	8.50%	95.00%
PNM	1996	9.90%	108.00%
PNM	1997	10.00%	106.00%
PNM	1998	11.30%	106.00%
PNM	1999	9.10%	85.00%
PNM	2000	10.20%	94.00%
PNM	2001	15.80%	123.00%
PNM	2002	6.30%	95.00%

Market-to-Book Regression Analysis
Mr. Hevert Proxy Group

Company	Year	ROE	M/B
PNM	2003	6.70%	93.00%
PNM	2004	7.90%	124.00%
PNM	2005	8.60%	147.00%
PNM	2006	8.40%	134.00%
PNM	2007	3.40%	125.00%
PNM	2008	0.50%	72.00%
PNM	2009	3.10%	50.00%
PNM	2010	4.80%	68.00%
PNM	2011	5.80%	85.00%
PNM	2012	5.50%	100.00%
POR	1992	12.90%	115.00%
POR	1993	12.00%	125.00%
POR	1994	11.30%	112.00%
POR	1995	13.40%	140.00%
POR	1996	13.90%	199.00%
POR	2006	5.90%	153.00%
POR	2007	11.50%	140.00%
POR	2008	6.50%	101.00%
POR	2009	6.20%	83.00%
POR	2010	8.00%	97.00%
POR	2011	9.00%	109.00%
POR	2012	8.30%	117.00%
SO	1992	13.40%	154.00%
SO	1993	13.40%	180.00%
SO	1994	12.40%	161.00%
SO	1995	13.00%	174.00%
SO	1996	12.60%	176.00%
SO	1997	11.40%	167.00%
SO	1998	12.30%	198.00%
SO	1999	13.10%	186.00%
SO	2000	13.60%	188.00%
SO	2001	11.90%	209.00%
SO	2002	15.70%	230.00%
SO	2003	15.60%	233.00%
SO	2004	15.20%	227.00%
SO	2005	15.00%	238.00%
SO	2006	14.20%	229.00%
SO	2007	14.50%	230.00%
SO	2008	13.50%	211.00%
SO	2009	13.20%	182.00%
SO	2010	12.50%	186.00%
SO	2011	12.90%	208.00%
SO	2012	12.90%	218.00%
WR	1992	11.00%	144.00%
WR	1993	12.40%	152.00%
WR	1994	10.70%	130.00%
WR	1995	11.10%	129.00%
WR	1996	10.40%	126.00%
WR	1997	-1.60%	131.00%
WR	1998	7.10%	128.00%
WR	1999	5.20%	89.00%
WR	2000	3.20%	74.00%
WR	2001	-2.20%	78.00%
WR	2002	5.00%	67.00%
WR	2003	10.60%	109.00%
WR	2004	7.70%	132.00%
WR	2005	9.60%	142.00%
WR	2006	11.10%	139.00%
WR	2007	10.00%	140.00%
WR	2008	6.70%	107.00%
WR	2009	5.30%	91.00%
WR	2010	8.50%	111.00%
WR	2011	8.20%	119.00%
WR	2012	9.50%	133.00%

Source: Exhibit DCP-10